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## **THESIS**

**SHIFTING POLICY POSTURES OF INDONESIA AND  
THAILAND: RESPONDING TO THE CHINA  
CHALLENGE**

by

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September 2015

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RESPONDING TO THE CHINA CHALLENGE**

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requirements for the degree of

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## **ABSTRACT**

China's rise and the strategic uncertainty about its future intentions have compelled countries in Southeast Asia, such as Indonesia and Thailand, to adopt hedging strategies to deal with China's rise. Since 2012, with China's foreign policy shifting toward a more proactive and assertive policy posture, Indonesia and Thailand have exhibited divergent hedging responses: Indonesia has shifted toward the balancing end of the hedging spectrum while Thailand has shifted toward the bandwagoning end.

This thesis seeks to analyze Indonesia's and Thailand's hedging responses and the key factors that explain their different hedging preferences. This thesis contends that Indonesia's and Thailand's hedging strategies have shifted in response to a change in their ruling elites' perception of benefits from an improved relationship with China, vis-à-vis their perception of China as a security threat. In both countries, domestic factors have also exerted an intervening effect on policy outcomes to different extents. Indonesia's hedging strategy reflects the compromise between enhancing Indonesia's future security, addressing nationalistic concerns of defending Indonesia's sovereignty, and gaining economic benefits. On the other hand, Thailand's ruling elites have sought to politically and economically benefit from China's rise in order to bolster their political legitimacy at home.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

AIIB	Asian Infrastructure Investment Bank
ADB	Asian Development Bank
APT	ASEAN Plus Three
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nation
BFA	Boao Forum of Asia
CAFTA	China-ASEAN Free Trade Agreement
COC	Code of Conduct in the South China Sea
DFA	Defense Framework Agreement
DOC	Declaration on Conduct in the South China Sea
EAS	East Asian Summit
EEZ	Exclusive Economic Zone
FAWC	Foreign Affairs Work Committee
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
HADR	Humanitarian Assistance and Disaster Relief
ICG	International Crisis Group
PLA	People's Liberation Army
PKI	Partai Komunis Indonesia
PTP	Peua Thai Party
NASA	National Aeronautics and Space Administration
NATO	North Atlantic Treaty Organization
RCEP	Regional Comprehensive Economic Partnership
SCS	South China Sea
SIPRI	Stockholm International Peace Research Institute
TAC	Treaty of Amity and Cooperation
TNI	Tentara Nasional Indonesia
TPP	Trans-Pacific Partnership
UN	United Nations

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## I. INTRODUCTION

One of the current debates in Southeast Asian security is centered on how Southeast Asian countries will strategically react to a rising China and the evolving regional security order. International relations scholars and foreign policy analysts have asserted that Southeast Asian countries such as Indonesia and Thailand have not exhibited any hard-balancing or bandwagoning behaviors in the strictest sense; rather, they have adopted hedging strategies that pursue equidistant relations with the current hegemonic power, the United States, and China, as the rising great power.

With the continued growth of China's relative power and the United States' relative decline, any perceived shifts in the regional order or perceived threats emanating from China's rise would compel Indonesia and Thailand to reconsider their existing equidistant relationships with these two powers. A rational actor that views China's rising power as less of a threat and more of an opportunity to increase economic and political gains would seek to align closer with China in its hedging strategy. On the other hand, an actor that is more concerned with the perceived threat of China's rising power would prioritize its security concerns over economic and political benefits, with an inclination to align closer with the United States and its allied partners in the region.

Since 2012, with China's foreign policy shifting toward a more proactive and assertive policy posture, Indonesia and Thailand have exhibited divergent hedging responses. Indonesia has shifted towards the balancing end of the hedging spectrum because Indonesian political elites view China's more assertive policy posture—especially with regards to the South China Sea (SCS)—as an increasing security threat. In contrast, Thailand has shifted towards the bandwagoning end of the hedging spectrum because Thailand's political elites view the perceived benefits associated with China's proactive engagement and rising power as a means of bolstering their domestic legitimacy. The different strategic considerations that underlie Indonesia's and Thailand's responses to China's policy shifts highlight how geopolitical and domestic political factors exert different pressures on Indonesia's and Thailand's hedging preferences.

## **A. MAJOR RESEARCH QUESTION**

This thesis analyzes Indonesia's and Thailand's foreign policy responses toward China's growing power, and the recent developments in China's foreign policy under President Xi Jinping. Within the current hedging strategy adopted by Indonesia and Thailand, have these Southeast Asian states leaned closer toward bandwagoning with China for gains, maintained their current hedging strategies, or aligned with balancing against the risk of an increasing China threat in the economic, political, and security realms? What are the key variables that provide an explanation for Indonesia's and Thailand's differing responses within their hedging strategies?

## **B. IMPORTANCE**

The study of Indonesia's and Thailand's behaviors in response to China's rise has two important implications. First, understanding the various competing factors that influence the strategic calculus of Southeast Asian states has implications for policymakers in understanding the strategies of small states in coping with systemic changes. Second, with the increasing competition between the United States and China for influence in Southeast Asia, it is important to understand how shifts in China's foreign policy are affecting Southeast Asian states' behavior. Understanding the causal logic of Southeast Asia's strategies in response to China's rise has wide-ranging implications for the United States as it seeks to strengthen its strategic alliances and build new regional partnerships to counter-balance China's expanding sphere of influence in Southeast Asia.

In studying the alignment behaviors of small states, the two Southeast Asian states—Indonesia and Thailand—are important case selections because they are strategic pivot states. These countries have established close relationships with both United States and China, and they have been successful in maintaining a neutral orientation in order to strategically benefit from both sides. However, hedging may not be a viable long-term strategy if Sino-American rivalry in the future forces these countries to choose sides. An analysis of these countries' strategic preferences and shifts in policy postures in response to China's current rise would provide significant indicators on the future trajectory of

their regional security alignments. It would also provide valuable insights into how the U.S. rebalancing policy within Southeast Asia could be better calibrated in order to regain lost ground in the strategic competition for influence with China.

## **C. LITERATURE REVIEW**

The following section first discusses three possible strategies of small states in dealing with China as a potential threat: balancing, bandwagoning, and engagement. The hedging strategy, which comprises elements of balancing, bandwagoning, and engagement, is also defined to understand the hedging strategies of Southeast Asian states.

### **1. Strategies of States: Balancing, Bandwagoning, and Engagement**

Small and medium-sized states react to the rise of a great power through various strategies. From a neo-realist perspective, states can either balance against the strong or threatening state, or they can bandwagon with that power. Besides balancing and bandwagoning, states may also choose engagement as a policy option to convert a rising power with revisionist intentions into a status quo power.

#### ***a. Balancing***

Under the concept of balancing, the implication of anarchy drives states to adopt balancing strategies to ensure their security and survival from stronger powers. States can internally balance by increasing their own military capabilities and externally balance by forming coalitions against the strong power. In some literature, the use of military power and alliance to prevent strong powers from conquering weaker states has been defined as hard-balancing.<sup>1</sup>

Stephen Walt argues that the inclination of states to balance is not only in response to power, but it is also a response to perceived threats from that power. The perception of threat is based on four factors: aggregate power, offensive capability, proximity of power, and aggressive intention. Although aggregate power—defined by a

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<sup>1</sup> Kenneth Waltz, *Theory of International Politics* (Long Grove, IL: Waveland Press, 2010), 113–28.

state's total resources—determines the potential capability of a state, offensive capability determines how threatening a military capability is perceived by other states. In addition, proximity also plays an important function in determining the degree of threat because it affects employment of power. Lastly, the inclination to balance depends on the perceived intent of the state: aggressive intentions increase the risk perception of threat and would provoke balancing, whereas policies that demonstrate restraint and benign intentions would negate balancing.<sup>2</sup>

Other scholars have defined a more subtle form of balancing, which is known as soft-balancing. One version of soft-balancing involves the use of non-military instruments, which, according to Robert Pape, include political alignments, diplomacy, and economic strengthening.<sup>3</sup> For example, soft-balancing has been used by Southeast Asian states that do not perceive China as an existential threat; hence, the intent of soft-balancing is not to directly challenge China's military power, but to restrict or impose costs on China if it misuses its military power. In contrast, another variant of soft-balancing involves the use of another dominant power's military instrument to balance against a perceived threat. Yuen Foong Khong describes Southeast Asia's soft-balancing behavior as "balancing against a perceived potential threat" by encouraging the continued U.S. military presence in Asia without the "formation of formal military alliances."<sup>4</sup> Similarly, Denny Roy describes such soft-balancing behaviors as "low-intensity balancing" where Southeast Asian states decline "to establish a formal military alliance" to counter a low-level present threat.<sup>5</sup>

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<sup>2</sup> Stephen M. Walt, "Alliance Formation and the Balance of Power," *International Security* 9, no. 4 (1985): 3–43, <http://www.jstor.org/stable/2538540>.

<sup>3</sup> Robert Pape, "Soft Balancing against the United States," *International Security* 30, no. 1 (2005): 36, doi: 10.1162/0162288054894607.

<sup>4</sup> Yuen Foong Khong, "Coping with Strategic Uncertainty: The Role of Institutions and Soft Balancing in Southeast Asia's Post-Cold War Strategy," in *Rethinking Security in East Asia: Identity, Power and Efficiency*, ed. J. J. Suh, Peter Katzenstein, and Allen Carlson (Stanford University Press, 2004), 174.

<sup>5</sup> Denny Roy, "Southeast Asia and China: Balancing or Bandwagoning?" *Contemporary Southeast Asia: A Journal of International and Strategic Affairs* 27, no. 2 (2005): 310, doi: 10.1353/csa.2011.0115.

**b. Bandwagoning**

As for the concept of bandwagoning, there are several differences in literature over its definition and motivation. Walt describes bandwagoning as the opposite end of the balancing spectrum, where weaker states ally with the threatening state. He articulates that states choose bandwagoning as a means of appeasing the potential threat so that it will not be attacked. Because weak states in close proximity to strong and threatening powers do not have the means to balance, or alliances are neither viable nor effective to prevent it from being attacked, bandwagoning as a policy makes more sense.<sup>6</sup> Therefore, small states in Southeast Asia, being at China's periphery, would likely bandwagon if they do not have the assurance of an effective alliance to counterbalance against the threatening power. All things being equal, Walt argues that states facing an external threat would overwhelmingly prefer to adopt a balancing strategy rather than a bandwagoning policy. Because bandwagoning requires an acceptance of "subordination under a potential hegemon," the subordinate state loses its "freedom of action" and relies on the continued benevolence of the potential hegemon.<sup>7</sup> Balancing is seen as a safer strategy because there is no guarantee that a potential hegemon would not change its intentions.

Unlike Walt, Randall Schweller describes bandwagoning and balancing as separate strategies, rather than two opposing forms of reaction to the perception of threat. If the goal of the state is self-preservation, then it is more likely to adopt a balancing strategy. On the other hand, a state that is interested in profits would bandwagon instead. Since bandwagoning is adopted in the expectation of gains, and balancing exacts high costs, Southeast Asian states would rather bandwagon with China if it is not perceived as an imminent threat to their survival. Opportunistic Southeast Asian states would also bandwagon with a revisionist China if it is perceived as the winning side.<sup>8</sup>

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<sup>6</sup> Walt, "Alliance Formation," 15–18.

<sup>7</sup> Ibid., 15.

<sup>8</sup> Randall Schweller, "Bandwagoning for Profit: Bringing the Revisionist State Back In," *International Security* 19, no. 1 (1994): 72–107, doi: 10.2307/2539149.

*c. Engagement*

Besides balancing and bandwagoning, political analysts have also advocated that states do adopt an engagement policy option in response to rising powers. Schweller describes the policy of engagement as “the use of non-coercive means to ameliorate the non-status quo elements of a rising major power’s behavior. The goal is to ensure that this growing power is used in ways that are consistent with peaceful change in regional and global order.”<sup>9</sup> The intent is to minimize conflict while appeasing and accommodating the rise of the great power within the current regional and international order.

The engagement strategy has been viewed from two perspectives by Southeast Asian states: The first perspective views engagement as a neoliberal and constructivist approach in which Southeast Asian states engage China at the bilateral level and through regional institutions such as ASEAN. The intent of this strategy is to develop economic, diplomatic, and military ties that facilitate China’s integration into the regional order and socialize China with ASEAN norms such as the respect of sovereignty and peaceful settlement of disputes. In the process, engagement would also regulate China’s behavior and reduce the probability that China would revise the regional order through conflict.<sup>10</sup> The second perspective views engagement as a complementary strategy to balancing. Through engagement, Southeast Asian states seek to gain a better understanding of China’s future intentions, so that they could attempt to address China’s dissatisfactions and to socialize China toward a status quo power. Concurrently, an engagement strategy serves to buy time for Southeast Asian states to strengthen their balancing options in the event that China cannot be appeased and threatens to challenge the regional order.<sup>11</sup>

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<sup>9</sup> Randall Schweller, “Managing the Rise of Great Powers: History and Theory,” in *Engaging China: The Management of an Emerging Power*, ed. Alastair Iain Johnston and Robert S. Ross (London, NY: Routledge, 1999), 14.

<sup>10</sup> Roy, “Southeast Asia and China,” 305–22.

<sup>11</sup> Schweller, “Managing the Rise of Great Powers,” 14–16.

## 2. Strategies of States: Hedging

Hedging has been described as a mixed—and often complex—strategy that combines the balancing, bandwagoning, and engagement approaches in response to the strategic uncertainties of China’s rise and the evolving regional order. Khong prefers to describe the hedging strategies of Southeast Asian states as soft-balancing with engagement; others have explained the policies as a mix of balancing and bandwagoning strategies, as opposed to hedging.<sup>12</sup> In contrast, Amitav Acharya avoids using the balancing and bandwagoning terms to describe ASEAN states’ behaviors. Instead, he sees ASEAN states as seeking to accommodate and engage China while “dealing with the security challenge of China through a mix of deterrence and cooperative security approach.”<sup>13</sup>

The incentive to hedge is seen to be most prevalent in a unipolar system that is “in the process of power deconcentration.”<sup>14</sup> In such an international system, Brock Tessman argues that “strategic hedging behavior helps second-tiered states cope with the threats and constraints they are likely to encounter under conditions of unipolarity, while simultaneously preparing them for new threats and opportunities that are likely to emerge as the system leader falls further into decline.”<sup>15</sup> For Southeast Asian states that view the United States as a security guarantor in the region, strategic hedging is a policy means to cope with the potential loss of “security-related public goods” provided by the current hegemon, while protecting themselves against a rising and threatening regional power.<sup>16</sup>

Regardless of the differing nuances of the hedging concepts in current literature, Southeast Asia analysts agree that hedging has been the core strategy adopted by many

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<sup>12</sup>Khong, “Coping with Strategic Uncertainty,” 172–208; Roy, “Southeast Asia and China,” 305–22; Ann Marie Murphy, “Beyond Balancing and Bandwagoning: Thailand’s Response to China’s Rise,” *Asian Security* 6, no. 1 (2010): 1–27, doi: 10.1080/14799850903471922.

<sup>13</sup> Amitav Acharya, “Seeking Security in the Dragon’s Shadow: China and Southeast Asia in the Emerging Asian Order,” *RSIS Working Paper* 44 (March 2003): 23, <http://www.rsis.edu.sg/wp-content/uploads/rsis-pubs/WP44.pdf>.

<sup>14</sup> Brock F. Tessman, “System Structure and State Strategy: Adding Hedging to the Menu,” *Security Studies* 21, no. 2 (2012): 193, doi: 10.1080/09636412.2012.679203.

<sup>15</sup> Ibid., 203.

<sup>16</sup> Ibid., 205.

Southeast Asian states in the current geopolitical context.<sup>17</sup> In order to cope with the strategic uncertainty of China's rise, the broad concept of the hedging strategy consists of engagement with China while balancing against potential Chinese aggression through maintaining a security relationship with the United States and other major powers in the region. Through the employment of hedging as a core strategy, Southeast Asian states aim to minimize long-term threats while maximizing short-term opportunities that are associated with China's rise. From the hedging state's perspective, such a strategy also enables greater policy maneuvering space and the flexibility to align with the perceived winning side in the event of a great power rivalry in the region.

**a. *Defining the Hedging Strategy: A Conceptual Framework***

Two variations of the hedging strategy stand out within the vast amounts of literatures that study Southeast Asia's hedging behavior. The first variant views hedging as a distinct form of strategy, rather than a strategy that sits in-between the balancing-bandwagoning dichotomy. According to Evelyn Goh, "hedging may be defined as a set of strategies aimed at avoiding (or planning for contingencies in) a situation in which states cannot decide upon more straightforward alternatives such as balancing, bandwagoning, or neutrality."<sup>18</sup> This hedging strategy comprises three elements: indirect or soft-balancing; complex engagement at the political, economic, and strategic levels; and enmeshment of major powers in the region to ensure a stable regional order.<sup>19</sup> Goh argues that hedging occurs only when a state is able to pursue engagement policies concurrently with indirect or soft-balancing policies, so that the state can "cultivate a middle position that forestalls or avoids having to choose one side at the obvious expense

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<sup>17</sup> Analysts such as Evelyn Goh and Cheng-Chwee Kuik have been strong advocates of the hedging strategy to describe Southeast Asian states' behaviors. For examples, see Evelyn Goh, "Great Powers and Hierarchical Order in Southeast Asia: Analyzing Regional Security Strategies," *International Security* 32, no. 3 (2007/08): 113–57, doi: 10.1162/isec.2008.32.3.113; Evelyn Goh, "Southeast Asian Perspectives on the China Challenge," *Journal of Strategic Studies* 30, nos. 4–5 (2007): 809–32, doi: 10.1080/01402390701431915; Cheng-Chwee Kuik, Nor Azizan Idris, and Abd Rahim Md Nor, "The China Factor in the U.S. 'Reengagement' with Southeast Asia: Drivers and Limits of Converged Hedging," *Asian Politics and Policy* 4, no. 3 (2012): 315–44, doi: 10.1111/j.1943-0787.2012.01361.x.

<sup>18</sup> Goh, "Meeting the China Challenge," 2.

<sup>19</sup> *Ibid.*, 3–4.

of another.”<sup>20</sup> Hedging is regarded as a distinct strategy because the aim is to preserve the “regional equilibrium based on the predominance of U.S. power.” When compared to the balancing or bandwagoning strategies, Goh asserts that their objectives differ because these strategies “aimed either at preventing a power transition or at achieving revisionist results within the power distribution.”<sup>21</sup>

Conceptually, the definition of hedging as a distinct strategy outside the balancing-bandwagoning spectrum is problematic. While Goh was careful to make the distinction that bandwagoning is a policy of alignment (and should not be misconstrued as engagement), her defined elements of indirect balancing, engagement, and enmeshment have clear connotations of either balancing against a potential China threat or bandwagoning for profit with China. In addition, small states do not have the power to preserve the status quo when a rising power such as China is challenging the U.S. hegemony in the region. Instead, small states protect their interests by cultivating ties with both sides without having to make an explicit choice of pure-balancing or pure-bandwagoning—for as long as the systemic conditions allow.

Another problem with labelling hedging as a distinct strategy outside the balancing-bandwagoning dichotomy is the difficulty of measuring shifts in hedging behaviors. In her argument, Goh attempts to operationalize the hedging strategy of Southeast Asian states in relation to the United States and China. She describes a strong hedger state as one that maintains a neutral position without leaning to either side, while a weak hedger is perceived as a state with the tendency to lean toward one side. This definition of hedging may be useful to describe the hedging behaviors of Southeast Asian states, but it is not useful as an analytical tool to understand shifts in behavior.

The second variant of the *hedging* definition sees hedging behavior as a strategy that falls in-between the balancing-bandwagoning spectrum. According to Cheng-Chwee Kuik, such a policy spectrum reflects the “degree of rejection and acceptance on the part of the smaller states towards a Great Power, with pure-balancing representing the highest

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<sup>20</sup> Ibid.

<sup>21</sup> Ibid., 35.

degree of power rejection, and pure-bandwagoning the extreme form of power acceptance.”<sup>22</sup> As opposed to Goh who defines hedging as a middle position, Kuik defines hedging as opposite or contradictory positions aimed at protecting a state’s interest through profit-maximizing while concurrently mitigating the longer-term risk of a potential threat.<sup>23</sup>

Under Kuik’s multi-component hedging framework, a hedging strategy involves the implementation of “two sets of mutually counteracting policy instruments that can be labelled the ‘returns-maximizing’ and ‘risk-contingency’ options.”<sup>24</sup> Hedging is therefore a two-pronged approach: On the one hand, a hedging state aims to increase economic, diplomatic, and political gains by building a constructive relationship with the rising power through returns-maximizing policies.<sup>25</sup> On the other hand, the risk-contingency policy aims to mitigate the potential threats of a rising power and to “reduce the hedger’s loss if things go awry.”<sup>26</sup> Under this two-pronged approach, Kuik suggests that the five specific policy tools—economic-pragmatism, binding-engagement, limited-bandwagoning, dominance-denial, and indirect-balancing—are common across all Southeast Asian states that employ hedging vis-à-vis China.

Compared to Goh’s definition of hedging, there are several advantages of using Kuik’s conceptual framework for analyzing shifts in policy posture. The simplification of policies into risk-contingency and returns-maximizing options provides a useful analytical tool to measure the subtle shifts in strategic behavior. Because hedging behavior is seen as a spectrum of strategies between the pure balancing-bandwagoning dichotomy, and not as a distinct strategy, it is easier to determine whether a state’s hedging strategy is leaning toward risk-contingency options because it perceives China as

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<sup>22</sup> Cheng-Chwee Kuik, “The Essence of Hedging: Malaysia and Singapore’s Response to a Rising China,” *Contemporary Southeast Asia: A Journal of International and Strategic Affairs* 30, no. 2 (2008): 165, doi: 10.1353/csa.0.0023.

<sup>23</sup> Cheng-Chwee Kuik, “Making Sense of Malaysia’s China Policy: Asymmetry, Proximity, and Elite’s Domestic Authority,” *The Chinese Journal of International Politics* 6 (2013): 434–35, doi: 10.1093/cjip/pot006.

<sup>24</sup> Ibid., 435.

<sup>25</sup> Kuik, “Essence of Hedging,” 163–71.

<sup>26</sup> Ibid., 171.

an increasing threat or toward returns-maximizing options because it wants to maximize its gain with the rising, revisionist power.

***b. Conditions and Variables that Influence the Hedging Strategy***

The conditions for Southeast Asian states to adopt hedging behaviors depend on a number of factors. According to Kuik, the hedging strategy is only possible when three conditions are met. First, there must not be any imminent existential threat to Southeast Asian states. Second, there should not be any existence of ideological fault lines (such as the Cold War) that force these states to form alliances. Lastly, there must not be any scenario that forces these small states to choose sides, such as great power rivalries in the region. The existence of any of the three conditions would likely compel a small state to shift from hedging to a pure balancing or pure bandwagoning strategy to ensure its own survival.<sup>27</sup>

Scholars have also examined variables that determine Southeast Asian states' hedging policies toward China. Ian Chen and Alan Yang argue that a state's policy response toward China can be narrowed down to the interaction between two variables: threat perception and the expectation of economic relations. A state that associates China's rise as an increasing threat with negative economic benefits would orientate toward soft-balancing behaviors. On the other hand, if a state perceives a low threat perception and a positive economic relationship, it would orientate toward bandwagoning behaviors.<sup>28</sup> This logic similarly holds true for a state adopting the hedging strategy; whether a state's hedging preference would orientate toward soft-balancing or bandwagoning would depend on the degree of threat perception vis-à-vis the expectations of economic benefits.

In the current geopolitical context, Indonesia and Thailand have adopted a hedging strategy because they do not perceive China as an imminent threat. Instead, they broadly view China's rise as a challenge fraught with strategic uncertainties, or they view

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<sup>27</sup> Kuik, "Essence of Hedging," 165.

<sup>28</sup> Ian Tsung-Yen Chen and Alan Hao Yang, "A Harmonized Southeast Asia? Explanatory Typologies to ASEAN Countries' Strategies to the Rise of China," *The Pacific Review* 26, no. 3 (2013): 265–88, doi: 10.1080/09512748.2012.759260.

China as a potential long-term threat. Nevertheless, each state has pursued different policy options under the hedging strategy, depending on their perception of China's growing power in relation to their common interests. An increasingly assertive China policy may raise Southeast Asia's fear of China's growing power, which would encourage states to lean toward stronger balancing policies. On the other hand, states that perceive greater benefits from closer economic ties with China may prefer to step up their level of engagement with China rather than lean toward balancing so as not to jeopardize the mutually beneficial relationship.

Domestic politics may also play an important role in the equilibrium. Kuik views domestic politics as an "intervening variable between structural conditions and states' policy choices."<sup>29</sup> In the case study of Malaysia, Kuik concluded that structural changes such as the changing distribution of power in the form of China's growing power should have encouraged greater balancing policies. Instead, Malaysia adopted a hedging approach that prioritized "immediate economic and diplomatic benefits over potential security concerns, while simultaneously attempting to keep its strategic options open for as long as the systemic conditions allow."<sup>30</sup> Therefore, without considering the possible intervening role of domestic politics, hedging behaviors in response to structural changes may not have a causal logic on their own.

#### **D. HYPOTHESES**

This thesis examines two key factors that affect the decision-making of political elites in Indonesia and Thailand: the perception of a security threat and the expectation of economic and political gains. From a threat perspective, China's rising powers and increasingly revisionist behaviors would compel a state to balance against the China threat. From a potential gains perspective, the intervening role of domestic politics would shape the priorities of political leaders in pursuing greater engagement and accommodation to maximize the potential gains associated with China's rise. Therefore,

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<sup>29</sup> Kuik, "Essence of Hedging," 165.

<sup>30</sup> Kuik, "Making Sense of Malaysia's China Policy," 437.

the net effect of policies is seen as a form of equilibrium between perceived threats and potential gains.

Based on this insight, this thesis seeks to investigate two potential hypotheses to explain the different hedging responses of Indonesia and Thailand. The first hypothesis views China's increasing material capabilities as the driving factor for a state to prioritize its risk-contingency options over its returns-maximizing options to deal with an increasing threat. Therefore, Indonesia and Thailand would be compelled to adopt a hedging position that leans toward balancing as China's power continues to grow while concurrently pursuing pragmatic policies to maximize economic gains.

The second hypothesis draws on Kuik's explanation that a state's policy is not purely determined by the growth or threat of China's power; rather, it is a "function of regime legitimation through which the ruling elite seek to capitalize on the dynamics of the rising power" for their own political survival.<sup>31</sup> According to Kuik, ruling elites make policy choices "to justify their domination by acting in accordance with the very foundations of their authority at a given time"; such foundations could refer to the ruling elites' ability "to preserve security and internal cohesion, to deliver economic growth, to uphold sovereignty and to promote a rationalized ideal that is peculiar to a particular country."<sup>32</sup> According to this hypothesis, the Indonesian and Thai ruling elites would assess the implications of China's rise and make policy choices that would best legitimize their political authority at home.

## **E. RESEARCH METHODS AND SOURCES**

This thesis examines the changes in China's foreign policy between President Hu Jintao (2002–2011) and Xi Jinping (2012–present). The thesis then describes and explains changes in foreign policy orientations of Indonesia and Thailand in response to China's foreign policy changes. In each case study, the individual state's relationship with China during the period of 2002–2011 is analyzed to determine whether there were any strategic preferences in hedging, so that shifts in policy posture from 2012 may be identified in

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<sup>31</sup> Kuik, "Essence of Hedging," 159.

<sup>32</sup> *Ibid.*, 162.

tandem with the recent developments in China's foreign policy. The analysis of trends and behaviors is based on secondary sources such as scholarly articles, press reporting, and official government statements from the countries in the case studies.

This thesis adopts Kuik's hedging definition, which views hedging as a strategy that fits in between the pure balancing-bandwagoning continuum. It also views hedging as the concurrent implementation of "two sets of mutually counteracting policy instruments" that serve to increase gains and mitigate risks.<sup>33</sup> However, this thesis differs from Kuik's characterization that the five specific policy tools of a hedging strategy are always the same for all states. Instead, this thesis views hedging as the employment of a broad range of policy tools that could vary between countries. The implementation of specific tools in a hedging strategy would depend on the specific context and how each country perceives its position along the balancing-bandwagoning continuum. The adoption of such a broader hedging framework would help account for the differences in hedging behaviors across the Southeast Asian states. The types of policy tools are analyzed to determine the different emphases of hedging in the respective Indonesia-China and Thailand-China relationships. By examining the progression of each component in the hedging strategy, a general trend concerning alignment can be identified.

## **F. THESIS OVERVIEW**

This thesis contains five chapters with the thesis study divided into two main parts. The first part of the thesis study, comprising Chapter II, provides a synopsis of the recent developments of China's foreign policy toward Southeast Asia. It also examines the significant shifts in foreign policy after the leadership transition from President Hu to President Xi. This part is essential to provide the context for assessing the perceived China threat vis-à-vis the expectations of potential gains.

The second part, composed of Chapters III and IV, analyzes and explains the different policy responses of Indonesia and Thailand toward China's rise and Beijing's recent shift in foreign policy under President Xi. Chapter III examines how Indonesia has

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<sup>33</sup> Kuik, "Making Sense of Malaysia's China Policy," 435.

responded to China's policy shifts by orientating towards the balancing end of the hedging spectrum while Chapter IV examines how Thailand has shifted towards the bandwagoning end of the hedging spectrum. In both chapters, empirical evidence is organized along two timelines: the 2001–2011 period and 2012 onwards. These timelines match two different eras in China's foreign policy. Observed trends in both periods are used to determine the shifts in Indonesian and Thai policies along the hedging spectrum in response to changes in China's policy toward Southeast Asia.

Chapter V summarizes the geopolitical and domestic political factors that have determined the different hedging responses of Indonesia and Thailand toward China's rising power and its new course of policy engagement in Southeast Asia. It concludes that domestic factors have been the key intervening variables that have determined the policy outcome in both countries; ruling elites in both countries have made policy choices that would best legitimize their political authority at home. This chapter ends with key insights into how the United States can adjust its rebalancing strategy to counterbalance China's growing influence and to be a more effective strategic partner in the region.

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## **II. CHINA'S FOREIGN POLICY SHIFTS**

Before addressing how Indonesia and Thailand have responded to China's recent foreign policy and behaviors, an examination of China's foreign policy under President Hu Jintao's and President Xi Jinping's administration is required to determine whether there have been any fundamental changes to China's policy toward Southeast Asia. This chapter argues that China's foreign policy under Xi's leadership has shown both continuity and change. Xi's government has continued to adhere to the peaceful development policy introduced by President Hu's administration, which has been essential in maintaining a stable periphery necessary for China's domestic development. Concurrently, China's policy has also shifted in four key ways: First, Xi's government has elevated neighborhood diplomacy as a top priority. Second, China has adopted a more proactive approach in shaping the regional environment. Third, Beijing has demonstrated a forceful determination to protect China's national interests. Fourth, China has sought to develop strategic relations based on reciprocity where neighboring countries that seek to cooperate with China will be rewarded in kind, but provocative neighbors that seek to challenge China's national interests will be met with aggressiveness. These policy shifts indicate that Xi's government has moved toward a more proactive approach in shaping the regional environment to facilitate China's peaceful development while assertively safeguarding its national interests.

Although Xi's foreign policy initiatives have generated greater opportunities for strategic cooperation and produced greater benefits for Southeast Asian states, these positive outcomes have been undermined by China's aggressive actions in the South China Sea (SCS) disputes. Compared to the first decade of the twenty-first century, most—if not all—Southeast Asian states have perceived China's actions in the SCS as an increasing security threat, but only some states have adjusted their policy toward greater balancing in response to an increasingly assertive China. The varied responses from these states suggest that policy adjustments toward China would depend on a state's prioritization of benefits from a closer relation with China vis-à-vis the perceived need to deal with a stronger China threat.

This chapter, which proceeds in three parts, examines the shifts in China's foreign policy and its implications to Southeast Asia. The first part introduces China's peaceful development policy under Hu's leadership (2002–2011) and examines China's key engagement policies to reassure Southeast Asia of China's peaceful rise. The second part highlights the perceived changes in China's behaviors toward Southeast Asia since 2012 and identifies the key shifts in China's policy that have accounted for these changes. The third part examines the implications of Xi's foreign policy shifts to the policy outcomes of Southeast Asian states and relates them to the various responses that have already occurred since 2013.

#### **A. HU'S FOREIGN POLICY: CONCEPT OF PEACEFUL DEVELOPMENT**

A key Chinese foreign policy emphasized under Hu's administration was the promotion of the "peaceful development" or "peaceful rise" concept.<sup>34</sup> Under Hu's leadership, Beijing placed a strong emphasis on developing a positive relationship with Southeast Asian states to ensure China's peaceful development while adhering to Deng Xiaoping's exhortation of "Keeping a Low Profile" in its external relations.<sup>35</sup> In his keynote address to the Boao Forum of Asia (BFA) in 2004, Hu advocated that China would "follow a peaceful development path holding high the banners of peace, development, and cooperation, joining the other Asian countries in bringing about Asian rejuvenation, and making a greater contribution to the lofty cause of peace and development in the world."<sup>36</sup>

Chinese leaders advocated several principles behind the peaceful development concept: China would "engage in regional cooperation in order to jointly create a peaceful, stable regional environment"; China's peaceful development is based on

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<sup>34</sup> The "peaceful rise" theory eventually evolved into the "peaceful development" theory, which was deemed a more suitable phrase to portray China's grand strategy and foreign policy. See Bonnie S. Glaser and Evan S. Medeiros, "The Changing Ecology of Foreign Policy-Making in China: The Ascension and Demise of the Theory of 'Peaceful Rise,'" *The China Quarterly* 190 (2007): 291–310, doi: 10.1017/S0305741007001208.

<sup>35</sup> Xuetong Yan, "From Keeping a Low Profile to Striving for Achievement," *The China Journal of International Politics* (2014): 153–84, doi: 10.1093/cjip/pou027.

<sup>36</sup> Hu Jintao, "Full Text of Hu Jintao's Speech at BFA Annual Conference 2004," *Xinhua*, April 24, 2004, <http://www.china.org.cn/english/features/93897.htm>.

“equality, mutual trust, and win-win cooperation”; China would build “good-neighboring relationships and partnership” with all countries based on the Five Principles of Peaceful Coexistence; and China’s national defense policy is “defensive in nature,” and it would never seek “hegemony or engage in expansion.”<sup>37</sup> These principles contributed to the strategic objective of ensuring a stable external environment for China to focus on its domestic development.

In order to achieve the goals of peaceful development, Hu’s policy toward Southeast Asia focused on enhancing engagement and mutually beneficial cooperation while reassuring Southeast Asian states that China’s rise presented an opportunity rather than a threat. In particular, Beijing pursued four key engagement policies in Southeast Asia: (1) expansion of China’s engagement in ASEAN institutions; (2) establishment of strategic partnerships and close bilateral relations; (3) expansion of regional economic cooperation; and (4) sustained diplomacy of reassurance to reduce strategic concerns of China’s rise.<sup>38</sup>

#### (1) Expansion of China’s Engagement in ASEAN Institutions

China began participating in ASEAN institutions in the mid-1990s and under Hu’s leadership China expanded and strengthened China-ASEAN engagements in three ways. First, China signed a slew of key agreements with ASEAN that signaled China’s commitments toward enhancing China-ASEAN cooperation and maintaining a peaceful rise.<sup>39</sup> At the 2002 ASEAN Summit, China and ASEAN signed two key agreements: the Declaration on the Conduct of Parties in the South China Sea (DOC) and the Framework

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<sup>37</sup> See Hu Jintao, “Full Text of Hu Jintao’s Report at 17th Party Congress,” *Xinhua*, October 24, 2007, [http://news.xinhuanet.com/english/2007-10/24/content\\_6938749\\_10.htm](http://news.xinhuanet.com/english/2007-10/24/content_6938749_10.htm); Hu Jintao, “Full Text of Hu Jintao’s Speech at BFA Annual Conference 2004,” *Xinhua*, April 24, 2004, <http://www.china.org.cn/english/features/93897.htm>; Wen Jiabao, “Full Text of Premier Wen Jiabao’s Speech at China-ASEAN Summit,” October 31, 2006, <http://au.china-embassy.org/eng/xw/t278097.htm>; “Premier Wen Attends ASEAN Plus Three Summit, Makes 5-Point Proposal,” *Xinhua*, November 20, 2007, [http://news.xinhuanet.com/english/2007-11/20/content\\_7116428.htm](http://news.xinhuanet.com/english/2007-11/20/content_7116428.htm).

<sup>38</sup> Framework for analyzing China’s engagement policies adapted from Shambaugh’s article. See David Shambaugh, “China Engages Asia: Reshaping the Regional Order,” *International Security* 29, no. 3 (2004/05): 72–89, <http://www.mitpressjournals.org/doi/pdf/10.1162/0162288043467496>.

<sup>39</sup> Evelyn Goh, “Southeast Asia Responses to China’s Rise: Managing the ‘Elephants?’” in *The Rise of China and International Security: America and Asia Respond*, ed. Kevin J. Cooney and Yoichiro Sato (London: Routledge, 2009), 162.

Agreement on Comprehensive Economic Cooperation, which set the framework for establishing the China-ASEAN Free Trade Agreement (CAFTA). At the 2003 ASEAN Summit, China acceded to the Treaty of Amity and Cooperation (TAC) and signed the Joint Declaration on Strategic Partnership for Peace and Prosperity to enhance comprehensive cooperation “focusing on politics, economy, social affairs, security, and international and regional affairs.”<sup>40</sup>

Second, China took an active—yet low-profile—role in supporting and establishing new ASEAN frameworks for regional cooperation. As the first non-ASEAN country to sign the TAC and establish an FTA with ASEAN, China actively supported the establishment of closer China-ASEAN ties. In advocating new frameworks for regional cooperation, Premier Wen proposed an initiative in 2004 to establish an East Asian Community to further strengthen regional cooperation. Subsequently, China supported Malaysia’s initiative of an exclusive East Asian grouping, which eventually became the East Asian Summit (EAS) in 2005. Nonetheless, although Beijing expanded its engagements in ASEAN, it avoided dominating these forums and preferred that ASEAN states take the lead. For instance, China supported Malaysia’s EAS initiative instead of pushing for its own grouping, and although China preferred an Asian exclusive EAS, it deferred to ASEAN’s decision to allow the United States to join the EAS in 2010.<sup>41</sup>

Third, China demonstrated an increasing willingness to engage in security cooperation since the early 2000s. Within the ASEAN-Plus-Three (APT) forum, China agreed to expand the dialogue from economic to political and security issues. China has also actively participated in security-related ASEAN institutions such as the ASEAN Regional Forum (ARF), where Beijing proposed initiatives such as the Security Policy Conference and hosted the first conference in 2004.<sup>42</sup> China’s increased engagement in

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<sup>40</sup> ASEAN Secretariat, “Joint Declaration of the Heads of State/Government of the Association of Southeast Asian Nations and the People’s Republic of China on Strategic Partnership for Peace and Prosperity,” External Relations-China, ASEAN website, accessed July 11, 2015, <http://www.asean.org>.

<sup>41</sup> For a discourse on the EAS, see Goh, “Southeast Asia Responses,” 162–63.

<sup>42</sup> Shambaugh, “China Engages Asia,” 87–88.

regional security was seen as an attempt to shape and influence the regional security environment in East Asia.

By engaging Southeast Asian states within ASEAN institutions, Beijing reassured them of China's peaceful development path. China's active engagement in ASEAN institutions was also instrumental in expanding China's influence via regional cooperation. Although scholars have debated the extent of China's influence in Southeast Asia, there is no question that Southeast Asian states have to constantly take China's interests into consideration due to the extensive Sino-ASEAN cooperation in the region.<sup>43</sup>

## (2) Establishment of Strategic Partnerships and Close Bilateral Relations

As part of China's diplomatic efforts to engage its neighbors, China has sought to establish strategic partnerships with Southeast Asian states (see Table 1). These agreements are part of Beijing's initiatives to forge closer bilateral relations, foster mutually beneficial, multi-layered cooperation, and promote common interests while working to resolve differences. Furthermore, through these strategic partnerships, China has established bilateral mechanisms for frequent high-level political dialogues and visits with the Southeast Asian states. According to Michael Glosny, through these dialogues and visits, "China has shown that it is willing to invest the time, effort, and resources towards improving relations with the ASEAN countries."<sup>44</sup> Therefore, strategic partnerships serve as an important policy instrument to ensure a stable regional environment that would facilitate China's continued focus on domestic development.<sup>45</sup>

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<sup>43</sup> For a more detailed discourse of how China has addressed political concerns through multilateral institutions, see Michael Glosny, "Heading toward a Win-Win Future? Recent Developments in China's Policy toward Southeast Asia," *Asian Security* 2, no. 1 (2007): 32–34, doi: 10.1080/14799850600575199.

<sup>44</sup> Michael Glosny, "Heading Toward a Win-Win Future?" 26.

<sup>45</sup> *Ibid.*, 34.

Table 1. China's Strategic Partnership Diplomacy with Southeast Asia.<sup>46</sup>

Countries	Information on Strategic Partnerships
ASEAN	2003 Strategic Partnership for Peace and Prosperity
Indonesia	2005 Strategic Partnership; 2013 Comprehensive Strategic Partnership
Cambodia	2006 Comprehensive Partnership; 2010 Strategic Partnership
Thailand	2007 Joint Action Plan for Strategic Cooperation; 2012 Comprehensive Strategic Cooperative Partnership
Vietnam	2008 Comprehensive Strategic Cooperative Partnership
Philippines	2009 Joint Action Plan for Strategic Cooperation
Laos	2009 Comprehensive Strategic Partnership of Cooperation
Malaysia	2009 Action Plan of Strategic Cooperative Partnership; 2013 Comprehensive Strategic Partnership
Myanmar	2011 Comprehensive Strategic Cooperative Partnership

### (3) Expansion of Regional Economic Cooperation

China's foreign policy has always placed a strong emphasis on expanding mutually beneficial economic cooperation. China's growing economic cooperation with ASEAN has resulted in both sides benefiting from increasing bilateral trade (see Table 2). China-ASEAN trade has grown from \$59 billion in 2003 to \$280 billion in 2011. As of 2011, China has become the top trading partner of ASEAN, and it is also one of the top three trading partners of ASEAN member states (with the exception of Brunei).

Table 2. China-ASEAN Trade Statistics 2003–2011 (US\$ billion).<sup>47</sup>

China-ASEAN	2003	2004	2005	2006	2007	2008	2009	2010	2011
China (excluding HK)	59.6	89.1	113.4	139.9	171.1	196.9	178.2	232.0	280.4
Total ASEAN Trade (%)	7.2	8.3	9.3	10.0	10.6	10.4	11.6	11.4	11.7

<sup>46</sup> Zhongping Feng and Jing Huang, "China's Strategic Partnership Diplomacy: Engaging with a Changing World," *ESPO Working Paper* no. 9 (2014): 19, <http://www.egmontinstitute.be/wp-content/uploads/2014/06/WP-ESPO-8-JUNE-2014.pdf>; Chenyang Li, "China-Myanmar Comprehensive Strategic Cooperative Partnership: A Regional Threat?" *Journal of Current Southeast Asian Affairs* 31, no. 1 (2012): 53–72, <http://www.CurrentSoutheastAsianAffairs.org>.

<sup>47</sup> Data from ASEAN trade statistics database, <http://www.asean.org/resources/2012-02-10-08-47-55/statistical-publications>.

The expansion of regional economic cooperation has also included infrastructure developments—such as hydroelectric facilities and transportation networks—throughout Southeast Asia, especially for the countries that share common borders with China. Sutter argues that the Chinese and Southeast Asian governments have welcomed these developments because they have opened previously “inaccessible areas to greater economic development.”<sup>48</sup> In addition, infrastructure developments facilitate the access and integration of nearby Southeast Asian markets with China’s economy, thereby expanding cross-border trades.

From the perspective of economic, trade, and investment cooperation, the most important initiative has been the CAFTA. China signed the framework agreement in 2002, which proposed an early harvest program provision and the progressive implementation of the CAFTA. According to Goh, the full implementation of the CAFTA by 2015 would make it the region’s largest free trade area, “comprising 1.7 billion people, a total GDP of \$2 trillion, and total trade exceeding \$1.2 trillion.”<sup>49</sup> By integrating the China-ASEAN economy through the CAFTA, Beijing hopes that ASEAN states would view their economic prosperity as increasingly linked to China’s growing economy. In turn, increasing economic interdependence provided Southeast Asian states with greater reassurance that China would continue its peaceful development path.

#### (4) Sustained Diplomacy of Reassurance to Reduce Strategic Concerns of China’s Rise

In Southeast Asia, strategic concerns with regard to China’s growing economic and military powers have revolved around three key issues. First, Southeast Asian states have viewed China’s rise as an economic challenge. Southeast Asia’s main concerns have been centered on the competition for foreign direct investment (FDI), market rivalry from China’s low-cost manufacturers, restrictive access to China’s market, and the flood of low-cost Chinese goods with the implementation of the FTA.<sup>50</sup> Second, China’s growing

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<sup>48</sup> Robert Sutter, *Chinese Foreign Relations: Power and Policy since the Cold War*, 3rd ed. (Lanham, MD: Rowan & Littlefield, 2012), 217.

<sup>49</sup> Goh, “Southeast Asia Responses,” 165.

<sup>50</sup> *Ibid.*, 165–67.

military capabilities have raised concerns of China as a potential military threat. In the past two decades, China's double-digit growth in defense spending has resulted in the People's Liberation Army's (PLA's) military capabilities growing more rapidly than its regional neighbors.<sup>51</sup> In particular, Southeast Asian states have been wary of Beijing's intentions to modernize the PLA's force projection capabilities in combination with further increases in defense spending. Third, Beijing's assertive posture in the SCS disputes has raised fears of China's revisionist intentions. Evidence of assertiveness included provocative actions to force foreign vessels to leave contested waters, increased presence of Chinese naval patrols, enforcement of Chinese imposed fishing ban, and harsh diplomatic actions in response to perceived challenges from other claimant states.<sup>52</sup>

Given that China's approach toward building a stable and peaceful regional periphery hinges on efforts to counter the China threat syndrome, Beijing sustained its charm diplomacy to alleviate distrust and concerns regarding China's rising powers and future intentions. At the regional level, China signed the Zone of Peace, Freedom, and Neutrality in 2001, consented to the terms of the DOC in 2002, and acceded to the TAC in 2003. Beijing's commitment to these ASEAN agreements made it more believable that China would adhere to a peaceful rise, thereby reducing the strategic mistrust between China and Southeast Asian states in the early 2000s.<sup>53</sup>

In an effort to alleviate concerns of China as an economic challenge, Beijing has sought to accommodate Southeast Asia's interests. In the case of the CAFTA, Beeson and Li argue that "Chinese policymakers were prepared to accept relatively disadvantageous terms and hold out the prospect of an 'early harvest' of economic benefits in order to win over Southeast Asian states that remained concerned about the

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<sup>51</sup> "At the Double," *The Economist*, March 15, 2014, <http://www.economist.com/news/china/21599046-chinas-fast-growing-defence-budget-worries-its-neighbours-not-every-trend-its-favour>.

<sup>52</sup> Michael D. Swaine and M. Taylor Fravel, "China's Assertive Behavior—Part Two: The Maritime Periphery," *China Leadership Monitor* 35 (2011): 1–29, <http://www.hoover.org/publications/china-leadership-monitor/article/93591>; See also a brief summary in Sutter, *Chinese Foreign Relations*, 227.

<sup>53</sup> Goh, "Southeast Asian Responses," 162.

potential threat posed by a more powerful partner.”<sup>54</sup> China also accommodated their interests of gaining access to important sectors of the Chinese economy by signing an agreement with ASEAN in 2007 to open up key service sectors.<sup>55</sup> With regard to investments, China has offset concerns of competition for foreign investments by increasing its FDI to Southeast Asian countries—Chinese FDI has increased from less than \$1 billion (between 2003 and 2005) to almost \$8 billion in 2011 alone.<sup>56</sup> Beijing’s accommodative policy and financial support have repeatedly earned goodwill with its neighbors.

In order to address the fears of China’s growing military capabilities, defense diplomacy has become an important feature in China’s policy toward Southeast Asia, which Beijing has promoted through four ways. First, at the ASEAN level, China has sought to increase its participation in defense and security dialogues. Second, China has sought to improve military transparency through the biannual publication of China’s Defense White Paper. Third, China has facilitated regular military engagements with Southeast Asian states through the conduct of joint military and training exercises, bilateral defense dialogues, and high-level military exchanges. Fourth, Chinese military forces have participated in various humanitarian and United Nations (UN) peacekeeping missions abroad in order to improve China’s international image. Based on the 2010 Defense White Paper, the PLA has held forty-four joint military and training exercises with foreign troops, participated in nineteen UN peacekeeping missions, and established defense and security consultation and dialogue with twenty-two countries (including Vietnam, Philippines, Indonesia, Thailand, and Singapore).<sup>57</sup> Through these various means, China’s defense diplomacy has served to project China’s military as a defensive capability, enhance mutual trust in defense relations, and assuage concerns of China’s rise.

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<sup>54</sup> Mark Beeson and Fujian Li, “Charmed or Alarmed? Reading China’s Regional Relations,” *Journal of Contemporary China* 21, no. 73 (2012): 44, doi: 10.1080/10670564.2012.627664.

<sup>55</sup> Goh, “Southeast Asian Responses,” 167.

<sup>56</sup> Glosny, “Heading toward a Win-Win Future?,” 31.

<sup>57</sup> “Full Text: China’s National Defense in 2010,” *Xinhua*, March 31, 2011, [http://news.xinhuanet.com/english2010/china/2011-03/31/c\\_13806851.htm](http://news.xinhuanet.com/english2010/china/2011-03/31/c_13806851.htm).

With regard to the SCS disputes, Hu's administration has generally adopted a moderate approach in order to avoid escalating tensions in the disputes. Beijing's stance has been to shelve aside sovereignty disputes and focus instead on mutually beneficial cooperation in the SCS.<sup>58</sup> While analysts may point to Beijing's stalling of the Code of Conduct negotiations as evidence of China's uncooperative attitude, Beijing has nonetheless demonstrated a cooperative approach to the dispute by seeking joint agreements with other claimant states, such as the 2005 joint agreement with Philippines and Vietnam to conduct exploration for oil and gas in the SCS.<sup>59</sup>

Although China's moderate approach was disrupted by a period of reactive assertiveness in dealing with the SCS disputes from 2009 to 2010, Beijing moved decisively from late 2010 to reassure ASEAN states of China's good neighborliness and commitment toward peaceful development. In December 2010, State Councilor Dai Bingguo issued a major speech that advocated China's adherence to the path of peaceful development.<sup>60</sup> In January 2011, Hu reaffirmed that "China would emphasize the positive in future relations; it would endeavor to build mutually beneficial relations that will deepen trust and allow differences over territorial and other issues to be handled according to international norms and in the spirit of mutual accommodation."<sup>61</sup> In a sign of good faith, China agreed to the guidelines to implement the DOC in July 2011.<sup>62</sup> In driving the point home even further, China released the "White Paper on Peaceful Development" in September 2011.<sup>63</sup>

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<sup>58</sup> Christopher K. Johnson, *Decoding China's Emerging 'Great Power' Strategy in Asia* (Washington, DC: Center for Strategic and International Studies, June 2014): 23, [http://www.spf.org/media/upload/1\\_CSIS.pdf](http://www.spf.org/media/upload/1_CSIS.pdf).

<sup>59</sup> Carlyle Thayer, "ASEAN, China and the Code of Conduct in the South China Sea," *SAIS Review* 33, no. 2 (2013): 75–84, doi: 10.1353/sais.2013.0022.

<sup>60</sup> Bingguo Dai, "Stick to the Path of Peaceful Development," *Xinhua*, December 13, 2010, [http://news.xinhuanet.com/english2010/indepth/2010-12/13/c\\_13646586\\_2.htm](http://news.xinhuanet.com/english2010/indepth/2010-12/13/c_13646586_2.htm).

<sup>61</sup> Robert Sutter and Chin-Hao Huang, "China-Southeast Asia Relations: China Reassures Neighbors, Deepens Engagement," *Comparative connections* 13, no.1 (May 2011), [http://csis.org/files/publication/1101qchina\\_seasia.pdf](http://csis.org/files/publication/1101qchina_seasia.pdf).

<sup>62</sup> Thayer, "ASEAN, China and the Code of Conduct," 77.

<sup>63</sup> "China's Peaceful Development," People's Republic of China White Paper, September 6, 2011, [http://www.china.org.cn/government/whitepaper/node\\_7126562.htm](http://www.china.org.cn/government/whitepaper/node_7126562.htm).

While some analysts have argued that China's assertiveness in the SCS disputes may have undermined China's regional engagement efforts and strained bilateral relations with some claimant states, most Southeast Asian states emphasized their positive relations with Hu's government.<sup>64</sup> Overall, under Hu's leadership Beijing successfully presented China's rise as an opportunity (rather than a threat) through astute diplomacy, strategic partnerships, economic and regional cooperation, and adherence to the policy of peaceful development.

## **B. XI'S FOREIGN POLICY APPROACH: CONTINUITY AND CHANGE**

Since Xi Jinping's ascension to power in late 2012, Southeast Asia has witnessed three important shifts in China's behavior within the region. First, Southeast Asian states have witnessed a more proactive Chinese leadership in promoting extensive cooperation that would serve to integrate the region. Second, Southeast Asian states have also witnessed greater provocative actions from China in the latest round of tensions in the SCS disputes that started in 2012. Third, some Southeast Asian states have experienced Beijing's carrot-and-stick approach—composed of the use of economic and political incentives or coercion—to compel these states into accommodating China's interests. China's proactive and assertive behaviors have generated an “assertive China discourse” that views China's policy as evolving from a “keeping a low profile” approach toward a “striving for achievements” strategy.<sup>65</sup>

### **1. Continuity: Adherence to the Path of Peaceful Development**

Although many China analysts have concurred that China's policy has shifted, these analysts have also agreed that China's policy has shown a great deal of continuity

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<sup>64</sup> See, for example, Donald Emmerson's piece on China's frown diplomacy. Donald K. Emmerson, “China's ‘Frown Diplomacy’ in Southeast Asia,” *Asia Times*, October 5, 2010, <http://www.atimes.com/China/LJ05Ad02.html>; See also Beeson and Li, “Charmed or Alarmed?” 35–51.

<sup>65</sup> Yan, “Keeping a Low Profile,” 153–84.

with Hu's policy of peaceful development.<sup>66</sup> Most analysts point to Xi's key addresses at the "conference on the diplomatic work with neighboring countries" in October 2013 and the Foreign Affairs Work Conference (FAWC) in November 2014 to validate China's continuity in foreign policy. In both speeches, Xi stressed that China remains committed to the peaceful development path, the continued emphasis on neighboring diplomacy, the advancement of multilateral diplomacy, and the promotion of mutually beneficial cooperation.<sup>67</sup> Chinese Professor Qin Yaqing argues that Xi's speeches have shown continuity in China's "overall strategic objectives, design, and policies" since Beijing continues to focus on maintaining a favorable regional environment for domestic development.<sup>68</sup>

## **2. Change: A Proactive and Assertive Approach**

Although China's foreign policy under Xi's leadership has shown continuity, there have also been four key shifts: (1) a greater priority on neighborhood diplomacy; (2) a more proactive approach in shaping the regional environment; (3) a greater assertiveness in defending China's national interests; and (4) a greater emphasis on strategic relations based on reciprocity.

### **(1) Priority on Neighborhood Diplomacy**

Under Xi's leadership, Beijing has elevated the importance of neighborhood diplomacy in its overall diplomatic agenda. The emphasis on neighborhood diplomacy

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<sup>66</sup> Yaqing Qin, "Continuity through Change: Background Knowledge and China's International Strategy," *The Chinese Journal of International Politics* (2014): 285–314, doi: 10.1093/cjip/pou034; Jian Zhang, "China's New Foreign Policy under Xi Jinping: Towards 'Peaceful Rise 2.0'?" *Global Change, Peace & Security: Formerly Pacifica Review: Peace, Security & Global Change* 27, no. 1 (2015): 5–19, doi: 10.1080/14781158.2015.993958; Christopher Johnson, *Thoughts from the Chairman: Xi Jinping Unveils His Foreign Policy Vision* (Washington, DC: Center for Strategic & International Studies, December 2014), <http://csis.org/publication/thoughts-chairman-xi-jinping-unveils-his-foreign-policy-vision>.

<sup>67</sup> Xi Jinping, "Let the Sense of Community of Common Destiny Take Deep Root in Neighboring Countries," Ministry of Foreign Affairs of the People's Republic of China, October 25, 2013, [http://www.fmprc.gov.cn/mfa\\_eng/wjb\\_663304/wjbz\\_663308/activities\\_663312/t1093870.shtml](http://www.fmprc.gov.cn/mfa_eng/wjb_663304/wjbz_663308/activities_663312/t1093870.shtml); Xi Jinping, "The Central Conference on Work Relating to Foreign Affairs Was Held in Beijing," Ministry of Foreign Affairs of the People's Republic of China, November 29, 2014, [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1215680.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1215680.shtml).

<sup>68</sup> Qin, "Continuity through Change," 285–314.

has been a continuation of policy from Hu's government, which was affirmed during the 2004 National People's Congress that "great powers are the key, the periphery is the priority, [and] developing countries are the foundation."<sup>69</sup> However, under Xi's government, China's relationships with its neighboring countries, which include Southeast Asian states, have been prioritized over the United States and other great powers. Analysts have pointed to four key pieces of evidence of China's prioritization toward its neighborhood diplomacy—in particular on Southeast Asia. First, within a year of taking over office, the Chinese leadership visited almost all of the Southeast Asian states and conducted high-level contacts with its regional neighbors. Second, during these official visits, Chinese leaders have similarly emphasized China's periphery as a "priority direction" for foreign policy. Third, Beijing held its first work conference on diplomacy with neighboring countries in October 2013 to provide policy guidance for peripheral diplomacy. Fourth, the authoritative policy report from the FAWC in November 2014 formalized China's periphery—such as the Southeast Asian region—as a priority in China's foreign affairs.<sup>70</sup>

## (2) Proactive Approach in Shaping the Regional Environment

China's neighborhood diplomacy in Southeast Asia has also been accompanied by Xi's vision of establishing a "community of common destiny."<sup>71</sup> Since 2013, Xi has used this vision to further strengthen China's relationship with Southeast Asia. During Xi's first visit to Indonesia in October 2013, he announced China's intentions to "build a more closely-knit China-ASEAN community of common destiny so as to bring more benefits to both China and ASEAN and to the people in the region."<sup>72</sup> The commitment toward

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<sup>69</sup> M. Taylor Fravel, "China Views India's Rise: Deepening Cooperation, Managing Differences," in *Strategic Asia 2011–12: Asia Responds to Its Rising Powers* (Washington, DC: National Bureau of Asian Research, 2011), 70.

<sup>70</sup> Timothy R. Heath, "Diplomacy Work Forum: Xi Steps up Efforts to Shape a China-Centered Regional Order," in *China Brief* 13, no. 22 (2013): 6, <http://www.jamestown.org/chinabrief/>; for other related speeches, see "President Xi Gives Speech to Indonesia's Parliament," *China Daily*, October 2, 2013, [http://www.chinadaily.com.cn/china/2013xiapec/2013-10/02/content\\_17007915.htm](http://www.chinadaily.com.cn/china/2013xiapec/2013-10/02/content_17007915.htm).

<sup>71</sup> Xi, "Let the Sense of Community"; Xi, "Central Conference."

<sup>72</sup> "President Xi Gives Speech to Indonesia's Parliament," *China Daily*, October 2, 2013, [http://www.chinadaily.com.cn/china/2013xiapec/2013-10/02/content\\_17007915.htm](http://www.chinadaily.com.cn/china/2013xiapec/2013-10/02/content_17007915.htm).

building the community of common destiny has since been reiterated by Chinese leaders during state visits and in ASEAN forums.

The “community of common destiny” concept not only encompasses the continuation of the peaceful development strategy from Hu’s administration, but it also represents China’s efforts to play a leadership role in shaping the regional environment through various Chinese initiatives.<sup>73</sup> At the ASEAN-China Summit in October 2013, Premier Li introduced a cooperation framework that emphasized a “two-point political consensus” and a seven-point proposal: the political consensus emphasized the promotion of China-ASEAN political cooperation, security cooperation, and economic development in parallel; the seven-point proposal encompassed various Chinese initiatives to strengthen multi-dimensional cooperation that would “achieve common development” and “enhance strategic mutual trust.”<sup>74</sup>

Under the ambit of forging a common destiny, China has proposed four key initiatives.<sup>75</sup> First, China seeks to build a regional financial platform through the establishment of the Asian Infrastructure Investment Bank (AIIB). The AIIB, which has been established since October 2014 with all 10 ASEAN states as members, aims to enhance economic development through infrastructure growth. Second, China wants to expand regional connectivity with Southeast Asia through the 21st Century Maritime Silk Road initiative, which would serve to strengthen maritime cooperation and integrate markets between China and maritime Southeast Asian states. Third, China has sought to advance economic integration through upgrading the CAFTA and supporting the implementation of the Regional Comprehensive Economic Partnership (RCEP) to further boost economic and trade cooperation. Fourth, China has committed to providing

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<sup>73</sup> Zhang, “China’s New Foreign Policy,” 15.

<sup>74</sup> “Premier Li Keqiang Attends the 16th ASEAN-China Summit, Stressing to Push for Wide-Ranging, In-Depth, High-Level, All-Dimensional Cooperation between China and ASEAN and Continue to Write New Chapter of Bilateral Relations,” Ministry of Foreign Affairs of the People’s Republic of China, October 10, 2013, [http://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/lkqzlcxdyldrxlhy\\_665684/t1088098.shtml](http://www.fmprc.gov.cn/mfa_eng/topics_665678/lkqzlcxdyldrxlhy_665684/t1088098.shtml).

<sup>75</sup> These key areas were also emphasized in President Xi’s keynote speech at the Boao Forum in April 2013. See Xi Jinping, “Working Together for a Better Future for Asia and the World,” Full Text of the Keynote Speech, Boao Forum for Asia, April 7, 2013, <http://english.boaoforum.org/mtzxxwz xen/7379.jhtml>.

investment and financial assistance to members of ASEAN. These financial commitments include US\$20 billion to develop the 21st Century Maritime Silk Road, US\$10 billion concessional loans to boost China-ASEAN cooperation, RMB\$3 billion of assistance gratis to less developed ASEAN countries, and US\$10 billion special loan from China Development Bank for China-ASEAN infrastructure development. Through these initiatives, China aims to proactively shape Asian regionalism, and to lead China-ASEAN cooperation from a “golden decade” to a “diamond decade.”<sup>76</sup>

### (3) Greater Assertiveness in Defending China’s National Interests

Although Xi has declared China’s commitment to peaceful development, he has also stressed the need to forcefully defend China’s national interests. At the FAWC in November 2014, Xi emphasized that China should turn its “neighborhood areas into a community of common destiny,” but in pursuing peaceful development, China will never relinquish its “legitimate rights and interests, or allow China’s core interests to be undermined.”<sup>77</sup> According to Bonnie Glaser, comments from Chinese officials have indicated that Hu’s policy of “‘shelving sovereignty and pursuing joint development’ has apparently been judged a failure in recent years”; hence, Xi has “adopted an unbending stance on sovereignty issues.”<sup>78</sup>

Xi’s emphasis on protecting China’s national interests is also reflected in his call for the PLA to accelerate its military modernization and operational capabilities. During the National People’s Congress in 2014, Xi called on the PLA to build up China’s military capabilities, reiterating that “‘we long for peace dearly, but at any time and under any circumstances, we will not give up defending our legitimate national interests and rights, and will not sacrifice our core national interests.’”<sup>79</sup> Xi’s military push has also

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<sup>76</sup> Li Keqiang, “Take China-ASEAN Relations to New Height,” Full Text of Li Keqiang Remarks at 17th ASEAN-China Summit, November 13, 2014, [http://english.gov.cn/premier/speeches/2014/11/15/content\\_281475010415762.htm](http://english.gov.cn/premier/speeches/2014/11/15/content_281475010415762.htm).

<sup>77</sup> Xi, “Central Conference.”

<sup>78</sup> Bonnie S. Glaser, testimony before the U.S.-China Economic and Security Commission, “China’s Relations with Southeast Asia,” May 13, 2015, <http://csis.org/testimony/security-dimensions-chinas-relations-southeast-asia-0>.

<sup>79</sup> Cited in Zhang, “China’s New Foreign Policy,” 9.

been articulated in China's latest 2015 Defense White Paper on "China's military strategy." For the first time, China has articulated an "active defense" strategic concept that includes shifting force development from "'offshore waters defense' to the combination of 'offshore waters defense' and 'open seas protection'" in order to "safeguard its national sovereignty and maritime rights and interests."<sup>80</sup>

Xi's strong emphasis on defending China's national interests has therefore resulted in greater assertive actions in the SCS dispute. Although Hu's government had also adopted an assertive stance in order to safeguard China's sovereignty in the SCS, Xi's policy focus has seen China proactively advancing these claims. According to the 2015 International Crisis Group (ICG) report, Beijing has previously justified that its assertive actions were in response to other rival claimants' provocative moves; however, China's oil-rig deployment in May 2014 was not a tit-for-tat response.<sup>81</sup> Similarly, China's extensive island reclamation activities since 2014 have been unprecedented in scale, raising protests from the United States and other claimant states. China's actions have left ICG to conclude that Xi's "foreign policy style has been characterized by . . . muscular actions, leading domestic and external observers to conclude he is more nationalist, more determined to assert maritime claims and less risk-averse than his predecessor."<sup>82</sup>

Despite China's assertiveness in the SCS dispute, Beijing has struck a delicate balance of ensuring that the crisis does not spiral out of control vis-à-vis demonstrating China's resolve to defend its territorial and maritime claims. After the escalation of the SCS dispute with Philippines, China renewed its interest on negotiating the implementation of the DOC and discussing the crafting of the Code of Conduct in the SCS (COC) in order to defuse tensions. Although this "well-established practice of oscillating between assertive actions to expand control followed by gestures to repair

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<sup>80</sup> "China's Military Strategy," The State Council Information Office of the People's Republic of China, May 26, 2015, <http://news.usni.org/2015/05/26/document-chinas-military-strategy>.

<sup>81</sup> International Crisis Group, "Stirring Up the South China Sea (III): A Fleeting Opportunity for Calm," *Asia Report* 267 (2015): 4, <http://www.crisisgroup.org/~media/Files/asia/north-east-asia/267-stirring-up-the-south-china-sea-iii-a-fleeting-opportunity-for-calm>.

<sup>82</sup> Ibid., ii.

diplomatic ties and consolidate gains” has been observed in the past, ICG reports that “this cycle has become more compressed in recent years, with shorter lulls and more-frequent flare-ups,” which is indicative of China’s increased assertiveness in advancing its claims.<sup>83</sup>

#### (4) Emphasis on Strategic Relations Based on Reciprocity

Xi’s policy has also emphasized the development of strategic relations based on reciprocity. In analyzing Xi’s speech at the 12th National Congress in March 2013, Yan Xuetong points out that “the ‘new concept of morality and interests’ means that morality is superior to economic profits,” which is different from previous Chinese policy of giving “priority to economic concerns”; furthermore, Xi’s emphasis on “morality and justice” means that “China will make policy toward a given country according to the character of China’s relation with that country.”<sup>84</sup> Taken together, Yan concludes that “China will decisively favor those who side with it with economic benefits and even security protections. On the contrary, those who are hostile to China will face much more sustained policies of sanctions and isolation.”<sup>85</sup> This reciprocity-based approach was also echoed by Premier Li at the 2014 BFA when he declared that China believes in “repaying kindness with kindness and meeting wrongdoing with justice.”<sup>86</sup>

China’s management of the SCS dispute with other claimant states points to the implementation of this reciprocity-based policy approach. When the Philippines initiated an international arbitration process in January 2013, Chinese foreign ministry officials visited Manila and “warned of negative implications for the Philippines trade, tourist

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<sup>83</sup> Ibid., i.

<sup>84</sup> Yan, “Keeping a Low Profile,” 170.

<sup>85</sup> Xuetong Yan, “China’s New Foreign Policy: Not Conflict but Convergence of Interests,” *Huffington Post*, January 28, 2014, [http://www.huffingtonpost.com/yan-xuetong/chinas-new-foreign-policy\\_b\\_4679425.html](http://www.huffingtonpost.com/yan-xuetong/chinas-new-foreign-policy_b_4679425.html).

<sup>86</sup> Andrew Browne, “Chinese Premier Li Warns Southeast Asia Nations against ‘Provocations,’” *Wall Street Journal*, April 11, 2014, <http://www.wsj.com/articles/SB10001424052702303873604579492832444031614>.

industry, and other interests” if the Philippines proceeded with the arbitration process.<sup>87</sup> In contrast, Vietnam’s willingness to hold bilateral negotiations to manage the maritime disputes (following escalating tensions in mid-2014) resulted in Chinese leaders visiting Hanoi to discuss ways to strengthen bilateral relations and deepen economic cooperation.<sup>88</sup> Separately, China has proposed a “dual-track” approach where China would resolve disputes directly with the claimant countries, while China and ASEAN would continue to ensure stability and cooperation in the region.<sup>89</sup> Sutter and Huang argue that China’s dual-track approach would allow Beijing to use the carrot-and-stick approach on recalcitrant claimant states while continuing to enhance win-win cooperation with other Southeast Asian states that are willing to accommodate China’s position in the SCS dispute.<sup>90</sup>

In sum, shifts in Xi’s policy toward Southeast Asia have resulted in more proactive and assertive behaviors currently witnessed by Southeast Asian states. Nevertheless, China’s shift toward a more assertive policy posture has currently been limited to issues perceived as important to China’s national interests, such as territorial sovereignty and maritime rights in the SCS. Similarly, China’s use of coercive diplomacy has been restricted to states that challenge China’s national interests. In other areas, China has continued to reaffirm its commitment to the peaceful development policy and to promote win-win cooperation in Southeast Asia.

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<sup>87</sup> Robert Sutter and Chin-Hao Huang, “China-Southeast Asia Relations: China’s Growing Resolve in the South China Sea,” *Comparative connections* 15, no. 1 (May 2013), [http://csis.org/files/publication/1301qchina\\_seasia.pdf](http://csis.org/files/publication/1301qchina_seasia.pdf).

<sup>88</sup> Robert Sutter and Chin-Hao Huang, “China-Southeast Asia Relations: Beijing Sets Positive Agenda, Plays Down Disputes,” *Comparative connections* 16, no. 3 (January 2015), [http://csis.org/files/publication/1403qchina\\_seasia.pdf](http://csis.org/files/publication/1403qchina_seasia.pdf).

<sup>89</sup> “China Supports ‘Dual-Track’ Approach to Resolve South China Sea Issue: Chinese FM,” *Xinhua*, August 10, 2014, [http://news.xinhuanet.com/english/china/2014-08/10/c\\_133544827.htm](http://news.xinhuanet.com/english/china/2014-08/10/c_133544827.htm).

<sup>90</sup> Robert Sutter and Chin-Hao Huang, “China-Southeast Asia Relations: China’s Toughness on the South China Sea-Year II,” *Comparative connections* 15, no. 2 (September 2013), [http://csis.org/files/publication/1302qchina\\_seasia.pdf](http://csis.org/files/publication/1302qchina_seasia.pdf).

### **C. CHINA'S POLICY SHIFTS: IMPLICATIONS FOR SOUTHEAST ASIA'S POLICY RESPONSE**

The changes in China's foreign policy under Xi's government have important consequences for Southeast Asian states' policy responses to China's rise in the region. China's growing economic clout and proactive diplomacy in forging a "community of common destiny" will fundamentally change the regional political and economic landscape and provide greater benefits to Southeast Asia. However, unlike Hu's era where Southeast Asian states have been more reassured of China's benign rise, Xi's assertive approach in advancing China's claims in the SCS dispute has compelled some Southeast Asian states to adjust their policy responses to deal with a more assertive China.

From the benefits perspective, Southeast Asian states have gained from China's commitments to peaceful development and mutually beneficial cooperation since the turn of the twenty-first century. With Beijing's current proactive peripheral diplomacy and the proposed implementation of key Chinese initiatives, such as the 2+7 Cooperation Framework, AIIB, One Belt, One Road project, and RCEP, China has presented multiple opportunities for Southeast Asian countries to gain greater benefits through closer cooperation and deeper China-ASEAN relations. Moreover, in the next five years, China will "import more than US\$10 trillion of goods, Chinese investments abroad will exceed US\$500 billion, and more than 500 million outbound visits will be made by Chinese tourists."<sup>91</sup> Barring any unforeseen circumstances, China will continue to be the driver of regional economic growth and a significant contributor to the economic development of Southeast Asian economies.

Despite the tremendous benefits associated with the various proposed economic initiatives, many Southeast Asian states view Beijing's intentions with caution. Although greater economic cooperation may be beneficial in the short term, China's growing economic preponderance in Southeast Asia over the longer term would give Beijing

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<sup>91</sup> Xi Jinping, "Full Text of Chinese President's Speech at Boao Forum for Asia," Ministry of Foreign Affairs of the People's Republic of China, March 28, 2015, [http://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/zyjh\\_665391/t1250690.shtml](http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1250690.shtml).

greater policy leverage in dealing with regional issues. ASEAN states will certainly not forget Cambodia's refusal to issue a joint communique (as the ASEAN Chair in 2012) because China was allegedly pressuring Cambodia not to release any statement that raised objections to China's actions in the SCS. With Xi's espoused policy of developing strategic relations based on reciprocity, it is even more likely that Beijing would use economic coercion and incentives to achieve China's interest. Chinese observers have echoed that Beijing would "increasingly utilize its growing economic, political, and even military power at the very least to discourage (if not punish) other powers, and to shape their perceptions, so that they do not oppose or obstruct Chinese interests."<sup>92</sup>

From a security perspective, the perception of an increasing China threat has been shaped by China's increasingly assertive stance in the SCS dispute, although this threat perception has varied among the individual Southeast Asian states. President Aquino has declared China as a security threat, and he compared China and Xi Jinping to Nazi Germany and Adolf Hitler during his speeches in February 2014 and June 2015.<sup>93</sup> With continued aggression from China in the SCS dispute, the Philippines has embarked on a long-term military modernization program, tightened the Philippines-U.S. alliance, and strengthened defense relations with Japan, another U.S. alliance partner. Similarly, another claimant state, Vietnam, has also embarked on a military modernization plan and sought to strengthen its bilateral relations with the United States. Although Indonesia is not a claimant state, it has recently stepped up diplomatic, legal, and military measures to contest China's nine-dash line claims, which partly overlaps with Indonesia's Exclusive Economic Zone (EEZ) near the Natuna Islands. Although Singapore has avoided taking sides in the dispute, it continues to voice concerns that China's assertiveness has the potential to destabilize the region, and it welcomes a greater U.S. role in enhancing

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<sup>92</sup> Michael D. Swaine, "Chinese Views and Commentary on Periphery Diplomacy," *China Leadership Monitor* 44 (2014): 25, <http://www.hoover.org/sites/default/files/research/docs/clm44ms.pdf>.

<sup>93</sup> Catherine Valente, "PNoy Likens China's Rulers to Hitler for Claiming Disputed Territories," *The Manila Times*, February 5, 2014, <http://www.manilatimes.net/pnoy-likens-chinas-rulers-to-hitler-for-claiming-disputed-territories/73470/>; Kiyoshi Takenaka, "Philippines's Aquino Revives Comparison Between China and Nazi Germany," *Reuters*, June 3, 2015, <http://www.reuters.com/article/2015/06/03/us-japan-philippines-idUSKBN0OJ0OY20150603>.

regional security. Other Southeast Asian states have downplayed the dispute and have preferred a policy of engagement with China for political and economic gains.<sup>94</sup>

The diverse responses to China's policy shifts highlight that Southeast Asian states face different strategic considerations. Although it is beyond the scope of this paper to analyze in depth the drivers of Southeast Asia's policy responses, it is recognized that only the Philippines seems to have taken sides with the United States to balance against China; other Southeast Asian states have continued to subscribe to strategic hedging—albeit adjusting toward the balancing side—or some form of limited bandwagoning behaviors. Ultimately, how each Southeast Asian state responds to future changes in China's policy depends on the strategic calculus between the expectations of greater benefits from an improved relation with China vis-à-vis the perception of China as a security threat.<sup>95</sup>

#### **D. CONCLUSION**

Under Xi's leadership, China's foreign policy has demonstrated both continuity and change. The continuity of China's peaceful development policy reflects Beijing's strategic goal of maintaining a favorable external environment for China's domestic development. Xi's government has also recognized that the geopolitical landscape has changed; therefore, China has shifted its policy by according a greater priority and emphasizing a more proactive approach in order to shape a regional environment more favorable to China's rise. China has also changed its past emphasis of cultivating beneficial economic relations with all states in favor of a selective strategy that rewards states that accommodate China's interests and help to facilitate China's peaceful development.

The most controversial policy shift has been China's greater assertiveness in advancing its territorial and maritime claims in the SCS, which seem to contradict with

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<sup>94</sup> International Crisis Group, "Stirring Up the South China Sea," 14–28; Glaser, "China's Relations with Southeast Asia," 6–12.

<sup>95</sup> Chen and Yang argue that ASEAN countries' strategies are dependent on the interplay between threat perception and expectation of economic relations. See Ian Tsung-Yen Chen and Alan Hao Yang, "A Harmonized Southeast Asia? Explanatory Typologies of ASEAN Countries' Strategies to the Rise of China," *The Pacific Review* 26, no. 3 (2013): 265–88, doi: 10.1080/09512748.2012.759260.

China's overall policy of peaceful development. Although China's assertiveness in the SCS certainly did not begin with Xi's government, his stronger emphasis—compared to Hu's government—on defending China's national interests has resulted in China becoming more proactive and aggressive in advancing its claims in the SCS. Even if China views its assertiveness as “defensive,” analysts have rightfully pointed out that a policy “designed to build and demonstrate China's strength work against China's desire to avoid frightening other countries into security cooperation against China.”<sup>96</sup> As a consequence, Beijing's greater assertiveness in recent years has eroded the goodwill accumulated through its charm diplomacy, damaged bilateral relations with some of the other Southeast Asian claimant states, and increased the risk of destabilizing the regional security environment. Rising concerns of the China threat have also driven some Southeast Asian states to strengthen their relations with the United States to balance or hedge against an increasingly assertive China.

China's policy shifts have presented Southeast Asian states with two pathways. Countries that continue to accommodate China's interests are promised greater benefits through mutually beneficial cooperation. In contrast, countries that continue to challenge or oppose China's interests are likely to face coercive pressures and intimidation to force them to acquiesce to China's demands. Therefore, Southeast Asian states face a growing challenge of juggling between maximizing benefits through developing closer strategic relations with a rising China vis-à-vis protecting their own interests by adopting stronger balancing policies against an increasingly assertive and potentially hegemonic great power.

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<sup>96</sup> Denny Roy, “China's Grand Strategy Is Not Absent, Just Contradictory,” *Asia Pacific Bulletin* 292 (2014), <http://www.eastwestcenter.org/publications/china%E2%80%99s-grand-strategy-not-absent-just-contradictory>.

### III. INDONESIA'S CHINA POLICY

Indonesia-China relations have often been characterized by “persistent ambivalence.”<sup>97</sup> Indonesia’s ambivalence toward China has been influenced by two conflicting views. On the one hand, Indonesian political elites view China’s peaceful development as playing a positive role in maintaining stability and prosperity in the region. With China’s peaceful rise, they expect that Indonesia will benefit economically as China’s growing economy becomes the driver of regional economic growth. In addition, some elites perceive China as an effective counterbalance against the hegemony of the United States in the region. On the other hand, Indonesia has traditionally viewed China as a threat due to concern over China’s revisionist intentions. The China threat discourse continues to dominate Indonesia’s political and military circles in the face of strategic uncertainty about China’s rise.

Where Indonesia’s foreign policy is concerned, Jakarta has consistently upheld the long-standing “free and active” (*bebas aktif*) principle as the core tenet of its foreign policy toward the great powers. From “rowing between two reefs” to “navigating a turbulent ocean,” these expressions represent Indonesia’s policy of maintaining a “dynamic equilibrium” among major powers.<sup>98</sup> Indonesia’s foreign policy toward China’s rise has predominantly been centered on a middle position between China, the rising great power, and the United States, the regional hegemon.<sup>99</sup> This hedging strategy has allowed Indonesia to maintain its autonomy and policy maneuvering space, and at the same, enabled Indonesia to benefit from China’s rise while addressing the security challenges associated with the strategic uncertainties of geopolitical changes.

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<sup>97</sup> Evan Laksmana, “Variations on a Theme: Dimensions of Ambivalence in Indonesia-China Relations,” *Harvard Asia Quarterly* 13, no. 1 (2011): 24, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1979863](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1979863); See also Rizal Sukma, “Indonesia’s Response to the Rise of China: Growing Comfort Amid Uncertainties,” in *The Rise of China: Responses from Southeast Asia and Japan*, ed. J. Tsunekawa (Tokyo: The National Institute for Defense Studies, 2009): 139–55, [http://www.nids.go.jp/english/publication/joint\\_research/series4/pdf/4-5.pdf](http://www.nids.go.jp/english/publication/joint_research/series4/pdf/4-5.pdf).

<sup>98</sup> Meidi Kosandi, “Shifting Paradigms and Dynamics of Indonesia-China Relations: Toward the Best Use of Theoretical Eclecticism,” *Asian Politics & Policy* 5, no. 2 (2013): 197–99, doi: 10.1111/aspp.12029.

<sup>99</sup> Rizal Sukma, “Indonesia and the Emerging Sino-US Rivalry in Southeast Asia,” in *The New Geopolitics of Southeast Asia*, ed. Nicholas Kitchen (London, UK: LSE IDEAS, 2013): 43, <http://www.lse.ac.uk/IDEAS/publications/reports/SR015.aspx>.

With China's policy shifting toward a proactive and assertive approach, as argued in Chapter II, Indonesia faces a growing dilemma concerning China's rise: Indonesia views China as a strategic partner, but it increasingly perceives China as a potential long-term threat. Indonesia has continued to pursue an active hedging strategy through building a closer economic relationship with China to benefit from China's growing economy, while strengthening bilateral relations with the United States and other major powers to maximize security benefits and to moderate the risk of a potentially revisionist China.

This chapter explores Indonesia's relations with China since the founding of the New Order regime in 1965 to highlight Indonesia's framing of the China threat. It goes on to address how Indonesia's ambivalence toward China has led Jakarta to pursue a hedging strategy since the turn of the twenty-first century. The chapter then focuses on how President Joko Widodo's (Jokowi) government has responded to China's policy shifts.

#### **A. 1965–2000: INDONESIA-CHINA HISTORICAL RELATIONS**

Indonesia's historical relationship with China has been characterized by enmity and distrust due to a perceived China threat. Under Suharto's New Order regime established in 1965, China was perpetuated as the principal source of threat to Indonesia's national security until Indonesia-China bilateral ties were normalized in August 1990. Even after normalization of ties, Indonesian ruling elites remained suspicious of China's intentions and called for vigilance in dealing with China. It was only after the end of the New Order regime with President Suharto's resignation in May 1998 that ushered in an era of improving Indonesia-China relations, but strategic concerns remained with China's potential hegemonic intent in the region.

The historical animosity against China traces back to the founding of Suharto's New Order regime in 1965. The New Order regime came into power following an attempted coup in October 1965 that was blamed on the Indonesian Communist Party, the *Partai Komunis Indonesia* (PKI). The Indonesian Armed Forces suppressed the PKI, removed the pro-communist President Sukarno from power, and installed General

Suharto as the President of the New Order regime. Due to China's political and financial support for the PKI since the 1950s, Suharto accused China of being involved in the coup attempt, which eventually resulted in the suspension of diplomatic relations between the two countries in October 1967.<sup>100</sup>

Under Suharto's regime, the three sources of the "China threat"—composed of communist China, the PKI, and the ethnic Chinese population in Indonesia—were promulgated as the key threats to Indonesia's national security. According to Rizal Sukma, "China was seen as an external threat . . . through [its] subversive activities, especially in helping the PKI to make a comeback; between the internal and external communist threats stood the ethnic-Chinese community which was suspected by the New Order government of providing a potential link between the two."<sup>101</sup> Suharto leveraged the perceived China threat to bolster his regime's political legitimacy and to justify an assimilation policy that implemented "discriminative measures against its Chinese minority."<sup>102</sup> Sukma argues that the need for Suharto to sustain his regime's political legitimacy through the promulgation of the China threat "prevented Jakarta from restoring diplomatic ties with Beijing for almost 23 years."<sup>103</sup>

Even after normalization of ties with China in August 1990, suspicions of China's intentions remained, and Indonesian elites called for vigilance in dealing with China. Indonesia adopted a cautious approach in developing its relations with China, and bilateral cooperation in the early 1990s were predominantly focused on trade and investments. Where political-security relations were concerned, Indonesia preferred to engage China within ASEAN's multilateral framework such as the ARF.<sup>104</sup>

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<sup>100</sup> Rizal Sukma, *Indonesia and China: The Politics of Troubled Relationship* (London: Routledge, 1999), 44–60.

<sup>101</sup> *Ibid.*, 48.

<sup>102</sup> Greta Keller, "Growing Convergence, Greater Consequence: The Strategic Implications of Close Indonesia-China Relations," *Security Challenges* 7, no. 3 (2011): 26, <http://www.securitychallenges.org.au/ArticlePDFs/vol7no3Nabbs-Keller.pdf>.

<sup>103</sup> Sukma, "Indonesia's Response," 142.

<sup>104</sup> *Ibid.*, 143.

Indonesia's wariness of China in the 1990s was reinforced through two events. The first was the anti-Chinese riots that occurred in North Sumatra during April 1994. In response to the riots against ethnic Chinese, Beijing issued a statement that called upon Jakarta to end the violence. In return, the Indonesian government accused China of interfering with its domestic affairs. Jakarta perceived China's protest as undermining Indonesia's sovereignty over its ethnic Chinese minority and questioning Jakarta's management of its own internal affairs.<sup>105</sup>

The second event revolved around China's claims in the SCS dispute. Although Indonesia has no claims in the territorial dispute, China's extensive maritime claims extend into Indonesia's EEZ near the Natuna waters. After China presented the nine-dash line claims at the 1993 Surabaya workshop, Indonesia sought clarification on Beijing's claims in the Natunas; however, China frustrated Indonesia's diplomatic efforts to seek resolution on the overlapping claims by stating that negotiations would be necessary to resolve the overlapping maritime boundaries.<sup>106</sup> With China's seizure of the Mischief Reef in 1995, China's actions served to reinforce the Indonesian government's apprehension of China as a security threat.<sup>107</sup>

With growing security concerns over China's military powers and assertive behaviors in the SCS, Suharto's government offered the U.S. military access to Indonesia's naval facilities in Surabaya for repairs and port calls to help sustain the U.S. military commitments in the region. In addition, Suharto concluded a security agreement with Australia in December 1995, which was a deviation from Indonesia's traditional policy of non-alignment. Some analysts viewed these policy actions undertaken by

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<sup>105</sup> Sukma, "Indonesia's Response," 142.

<sup>106</sup> Ian Storey, *Southeast Asia and the Rise of China: the Search for Security* (London: Routledge, 2011), 199.

<sup>107</sup> Michael Leifer, "Indonesia's Encounters with China and the Dilemmas of Engagement," in *Engaging China: The Management of an Emerging Power*, ed. Alastair Iain Johnston and Robert Ross (New York: Routledge, 1999), 95–97.

Suharto's government as efforts to deal with the security concerns of China's growing powers and likely hegemonic intent.<sup>108</sup>

The 1997 Asian Financial Crisis was a defining moment in Indonesia-China relations from three perspectives. First, China's response to the crisis and its aftermath heralded a shift in Jakarta's perception of China. Beijing's financial aid packages to Indonesia and refusal to devalue the Chinese currency during the crisis demonstrated Chinese goodwill to Indonesia. In addition, China's charm diplomacy, good neighbor policy, and active engagements in ASEAN institutions in the immediate aftermath of the crisis also helped to alleviate the China threat perception.<sup>109</sup>

Second, China's measured response to the anti-government riots in May 1998, which brutally attacked Indonesia's ethnic Chinese community, prevented the incident from complicating bilateral relations. In contrast to the 1994 riots, even though Beijing expressed concerns over the attacks against Chinese Indonesians, Chinese leaders deliberately emphasized that the issue was an internal affair and had no intentions of letting the issue affect bilateral relations.<sup>110</sup>

Third, the financial crisis led to the collapse of Suharto's New Order regime, which enabled the newly democratized government to pursue a different policy course toward China. President Wahid, who was democratically elected in October 1999, accorded high priority toward improving Indonesia-China relations. He made China his first visit, and both countries signed a joint communique pledging to strengthen cooperation and exchange. Wahid also initiated the abolishment of discriminatory policies against the Indonesian Chinese, which helped to restore confidence of the

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<sup>108</sup> Leifer, "Indonesia's Encounters," 101–102; see also Denny Roy, "Southeast Asia and China: Balancing or Bandwagoning?" *Contemporary Southeast Asia: A Journal of International and Strategic Affairs* 27, no. 2 (2005): 317, doi: 10.1353/csa.2011.0115.

<sup>109</sup> Syamsul Hadi, "Indonesia, ASEAN, and the Rise of China: Indonesia in the Midst of East Asia's Dynamics in the Post-Global Crisis World," in *International Journal of China Studies* 3, no. 2 (2012): 152, <http://ics.um.edu.my/images/ics/IJCSV3N2/contribnotes.pdf>.

<sup>110</sup> Rizal Sukma, "Indonesia-China Relations: The Politics of Re-engagement," *Asian Survey* 49, no.4 (2009): 597–99, <http://www.jstor.org/stable/10.1525/as.2009.49.4.591>.

democratic Indonesian government in forging closer relations with China and the Chinese business communities.<sup>111</sup>

Despite Indonesia's receptivity to closer Indonesia-China relations in the aftermath of the 1997 financial crisis, Indonesia's historical enmity and distrust of China has entrenched a deep-rooted wariness of China's growing powers and future intentions. According to prominent Southeast Asian analyst Daniel Novotny, there was a prevalent belief in the late 1990s "among the Indonesian leadership that the rapidly growing Chinese economy will be translated into an enhanced military power which may in turn lead Beijing to pursue aggressive expansionism in the region."<sup>112</sup> Such suspicions of China's future intentions among Indonesian political elites would set the stage for Indonesia's ambivalence of China's rise in the turn of the twenty-first century.

## **B. 2001–2011: INDONESIA'S POLICY AND RELATIONS WITH CHINA**

The progress of democratic consolidation and China's charm diplomacy since 1998 has reduced the perception of the China threat, but as mentioned above, Indonesian political elites continue to remain ambivalent toward China. China's rise has been viewed as an opportunity and a challenge, and China has been considered as a competitor and a partner. This section examines the evolving considerations and implementation of Indonesia's hedging strategy vis-à-vis China.

### **1. Evolving Strategic Considerations in Indonesia's China Policy**

Under President Megawati's administration from 2001 to 2004, Indonesia's priority was to address its many domestic problems and to reform the national political system. Nevertheless, Indonesia maintained cordial relations with China, and the government focused on establishing close economic cooperation, especially in the energy

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<sup>111</sup> Sukma, "Indonesia's Response," 145–46.

<sup>112</sup> Daniel Novotny, *Torn between America and China: Elite Perceptions and Indonesian Foreign Policy* (Singapore Institute of Southeast Asian Studies, 2010), 219.

sector. At the regional level, Indonesia kept a low profile and sought to manage the uncertainties of China's rise through the framework of ASEAN.<sup>113</sup>

When Susilo Bambang Yudhoyono was elected as President in 2004, Indonesia had already become more confident in dealing with China. Sukma claims that "Indonesia no longer sees China as a direct threat to Indonesia's national security and internal stability."<sup>114</sup> Two factors have accounted for this change in perception. First, China's charm diplomacy since the late 1990s has alleviated concerns of the China threat. As discussed in Chapter II, China's peaceful development policy has been positively viewed by Indonesia and the region, and Indonesia now perceives China as a responsible and benevolent rising power. This positive perception was further reinforced when China responded rapidly to provide aid during the tsunami disaster that struck Indonesia in December 2004. Second, Indonesia's democratization process since 1998 has reduced the anti-Chinese prejudice and discrimination. When Indonesia democratized, Sukma argues that "perpetuating the Chinese threat as the basis of regime legitimacy would no longer be attainable."<sup>115</sup> The resolution (though not complete elimination) of the ethnic Chinese problem helped to remove an obstacle that would have hindered Indonesia's relations with China.

Nevertheless, Indonesia continues to remain ambivalent on China's rise. From the economic dimension, China's growing economy has been perceived as an opportunity and a threat. According to Laksmana, although "China presents huge economic opportunities," many Indonesian policymakers "fear that a growing engagement with China might someday translate into dependency" that would provide China with a political leverage.<sup>116</sup> From the security dimension, ambivalence is centered on China's long-term intentions. On the one hand, some Indonesian elites have embraced China's rise and its engagements in regional institutions because they see China as a "balancer to

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<sup>113</sup> Christine Susanna Tjhin, "Indonesia's Perceptions of the 'China Threat': From 'Yellow Threat from the North' to 'Strategic Partner,'" in *China's Rise—Threat or Opportunity*, ed. Herbert Yee (New York: Routledge, 2011), 198.

<sup>114</sup> Sukma, "Indonesia's Response," 142.

<sup>115</sup> Sukma, "Indonesia's Response," 149.

<sup>116</sup> Laksmana, "Variations on a Theme," 28.

American unilateralist designs in the region.”<sup>117</sup> On the other hand, strategic concerns of “how China is going to use its newly acquired wealth and military power” have continued to reinforce the perception of a potential China threat.<sup>118</sup> According to a survey conducted by Novotny in 2004, the results indicated that 78 percent of Indonesian elites perceived to some degree that China’s rise would lead to future hegemonic intentions.<sup>119</sup>

## **2. Implementing the Hedging Strategy**

Due to the strategic uncertainty of China’s long-term intentions, Indonesia has adopted a hedging strategy to deal with China’s rise. As discussed in Chapter I, the hedging strategy consists of a mix of policy tools to minimize the potential China threat and maximize the benefits and opportunities associated with China’s rise. Under Yudhoyono’s leadership, Indonesia’s hedging preference consisted of strengthening bilateral relations with China for economic benefits while pursuing closer bilateral relations with the United States and other powers to counterbalance China’s growing powers. At the same time, Jakarta continued to play an active role in ASEAN to shape the regional architecture in order to maintain a dynamic equilibrium of power influences in the region. Indonesia operationalized its hedging strategy through implementing three key policy tools: economic pragmatism, strategic engagement, and soft balancing policies.

### ***a. Economic Pragmatism Policy: Economic Benefits and Competition***

Economic pragmatism refers to “a policy wherein a state seeks to maximize economic gains from its direct trade and investment links with a Great Power.”<sup>120</sup> Indonesia’s economic cooperation with China has focused on trade, investment, and the development of key sectors in Indonesia’s economy. As the world’s largest populous state, China is an important market for Indonesian products. Similarly, Indonesia—as the world’s fourth largest populous state—represents an important export market for Chinese

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<sup>117</sup> Ibid., 31.

<sup>118</sup> Sukma, “Indonesia and the Emerging Sino-US Rivalry,” 43.

<sup>119</sup> Novotny, *Torn between America and China*, 211–12.

<sup>120</sup> Kuik, “The Essence of Hedging,” 167.

goods. In addition, Indonesia is also the world's second largest coal exporter and world's largest palm oil exporter, and these natural resources are becoming increasingly vital to fuel China's growing economy. At the same time, Indonesia requires extensive investments in infrastructure to expand its under-developed economy.

Given these convergence of economic interests, implementing pragmatic win-win economic cooperation with China has enabled Indonesia to maximize its own economic gains and bolster economic growth and development. With the abundance of natural resources, Indonesia has become an important energy supplier to meet China's growing energy demands. Under Megawati's government, economic cooperation focused prominently on the energy sector. Megawati's government established the 1st Indonesia-China Energy forum in 2002 to enhance energy cooperation in the oil and gas sector.<sup>121</sup> Since the initiation of this forum, a large number of deals have been signed. Chinese state-owned companies such as Petrochina, Sinopec, and China National Offshore Oil Corporation have acquired operational rights in Indonesian oil and gas fields and invested in oil and energy infrastructure.<sup>122</sup>

In terms of trade, economic re-engagement under Yudhoyono's government significantly expanded bilateral trade (see Table 3). In 2004, Indonesia's total trade with China amounted to US\$10.4 billion, accounting for 8.7 percent of Indonesia's world trade. Bilateral trade surged to US\$40.5 billion in 2010, accounting for 13.8 percent of Indonesia's world trade.<sup>123</sup> The implementation of the CAFTA in 2010 resulted in a substantial increase in overall trade, with trade increasing by US\$10.2 billion and US\$14.3 billion in 2010 and 2011, respectively. As a result of greater economic cooperation in trade, China rose from being Indonesia's fifth-largest trading partner in 2004 to become one of Indonesia's largest trading partner in 2010.<sup>124</sup>

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<sup>121</sup> Christine Susanna Tjhin, "Indonesia's Relations with China: Productive and Pragmatic, but Not Yet a Strategic Partnership," *China Report* 48, no. 3 (2012): 307, doi: 10.1177/0009445512462303.

<sup>122</sup> Laksmana, "Variations on a Theme," 27.

<sup>123</sup> Statistics compiled from UN Comtrade database, <http://comtrade.un.org/data/>.

<sup>124</sup> Laksmana, "Variations on a Theme," 27.

Table 3. Statistics of Indonesia-China Total Trade in Goods (2004–2011).<sup>125</sup>

	2004	2005	2006	2007	2008	2009	2010	2011
<b>Total Trade with China +HK (US\$ billion)</b>	10.4	14.3	17.0	20.4	31.1	29.3	40.5	54.8
<b>Indonesia's Total Trade (%)</b>	8.7	9.9	10.5	10.8	11.7	13.7	13.8	14.4

China has become a key investor and a major financier to Indonesia. In terms of investment, more than 1,000 Chinese companies with investments of over \$6 billion were operating in Indonesia at the end of 2010.<sup>126</sup> During Premier Wen Jiabao's visit to Jakarta for the Indonesia-China Strategic Business Dialogue in 2011, investment deals worth a total of US\$10 billion were signed.<sup>127</sup> In addition, China has also been actively involved in major infrastructure projects in Indonesia. A prominent symbol of Indonesia-China cooperation in infrastructure investment has been the Suramadu Bridge; it was jointly built by Indonesia-China joint consortiums and mostly financed using Chinese soft loans. The significance of Chinese investments in Indonesia has not gone unnoticed—a Jakarta Post article in 2010 highlighted that China has “become a major financier to mega projects in Indonesia, the role played by the World Bank, Asian Development Bank (ADB), Europe, Japan, and the United States in the past.”<sup>128</sup>

Economic cooperation with China has not been without its challenges. Many Indonesian elites view China as a competitor and, in some extreme cases, as an economic threat. A key source of friction between China and Indonesia has been the implementation of the CAFTA. Protests from various domestic groups have centered on “the poor quality of cheap Chinese products,” the inability of Indonesia's “small and

<sup>125</sup> Statistics compiled from UN Comtrade database, <http://comtrade.un.org/data/>.

<sup>126</sup> Ministry of Foreign Affairs of the People's Republic of China, “Remarks by His Excellency Wen Jiabao Premier of the People's Republic of China at China-Indonesia Strategic Dialogue,” updated April 30, 2011, [http://www.fmprc.gov.cn/mfa\\_eng](http://www.fmprc.gov.cn/mfa_eng).

<sup>127</sup> Esther Fung, “Chinese Companies Invest \$10 Billion in Indonesia,” *Marketwatch*, April 30, 2011, <http://www.marketwatch.com/story/chinese-companies-invest-10-billion-in-indonesia-2011-04-30>.

<sup>128</sup> “60 Years Indonesia-China Relations,” *The Jakarta Post*, April 13, 2010, <http://www.thejakartapost.com/news/2010/04/13/60-years-indonesiachina-relations.html>.

medium enterprises to compete with Chinese products in the domestic and regional market,” and the need to protect Indonesia’s agriculture sector.<sup>129</sup> With the trade deficit rising to US\$5 billion in the first year of CAFTA’s implementation, some analysts have alleged that CAFTA had “contributed to the downturn of as much as 20 per cent of Indonesia’s industrial capacity and 15 per cent of job losses.”<sup>130</sup> Even though China has extended help to alleviate the negative impact of the CAFTA through preferential export buyers’ credit and financing, these overtures have not been sufficient to overcome the view of China as a competitor in economic relations.

***b. Strategic Engagement: Maximizing Benefits***

Strategic engagement refers to a policy wherein a state seeks strategic cooperation to enhance mutual benefits and develop greater bilateral communication and mutual trust. By increasing bilateral communication and institutionalizing interactions, Indonesia’s strategic engagement with China establishes venues to address potential conflict of interests and to develop strategic interests for mutual benefits.<sup>131</sup> Indonesia’s strategic engagement with China has been evident from the frequent high-level visits between the two countries, the declaration of the Indonesia-China Strategic Partnership, and the expansion of strategic cooperation to include defense cooperation.

Indonesia’s policy of seeking strategic engagement with China has been a foreign policy priority under President Yudhoyono’s leadership. This engagement policy has been reflected in the frequent exchange of high-level visits by state leaders and key party officials from both countries (see Table 4). These high-level visits helped to enhance bilateral relations through discussions on strengthening strategic cooperation and adoption of cooperative agreements.

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<sup>129</sup> Kosandi, “Shifting Paradigms and Dynamics,” 201.

<sup>130</sup> Hadi, “Indonesia, ASEAN, and the Rise of China,” 156.

<sup>131</sup> Adapted from Kuik’s definition of *binding engagement* and Hiep’s *direct engagement*. See Kuik, “Essence of Hedging,” 167; Le Hong Hiep, “Vietnam’s Hedging Strategy against China since Normalization,” *Contemporary Southeast Asia: A Journal of International and Strategic Affairs* 35, no. 3 (2013): 346, doi: 10.1353/csa.2013.0024.

Table 4. Indonesia-China High-Level Visits (2005–2011)

Date	Official	Purpose of Visit	Agreements/Achievements
April 2005	President Hu Jintao	Official Visit to Jakarta Hosted by President Yudhoyono	-Joint Declaration of Indonesia-China Strategic Partnership -Signing of additional eight accords
July 2005	President Yudhoyono	Official Visit to Beijing Hosted by President Hu	-Signed five agreements: Economic programs, tsunami assistance, defense, technology, and education
March 2006	Chairman CPPCC Jia Qinglin	Official Visit to Jakarta Hosted by Vice-President Kalla	-Discussion on bilateral cooperation
April 2006	Vice-President Kalla	Attended BFA Met Vice President Zeng Qinghong	-Discussion on infrastructure cooperation
October 2006	President Yudhoyono	2 <sup>nd</sup> Energy Forum Shanghai Hosted by Vice-Premier Huang Hu	-Signed US\$3.56 billion worth of energy contracts
June 2007	Vice-President Kalla	Official Visit to Beijing Hosted by Vice-President Zeng Qinghong	-Discussion on strengthening strategic partnership
July 2007	Foreign Minister Yang Jiechi	Official Visit to Jakarta Hosted by President Yudhoyono	-Discussion on strengthening strategic partnership
December 2008	Vice-Premier Li Keqiang	3 <sup>rd</sup> Energy Forum in Jakarta Hosted by Vice-President Kalla	-Signed eight energy and mining project deals worth US\$3.13 billion
July 2009	Foreign Minister Hasan Wirayuda	Official Visit to Beijing Hosted by FM Yang and Vice-Premier Li	-Signed extradition agreement
November 2009	President Yudhoyono	APEC Summit in Singapore Bilateral Meeting with President Hu	-Discussion on strengthening strategic partnership
January 2010	State Councilor Dai Bingguo	China-Indonesia Dialogue Met with President Yudhoyono	-Signed Action Plan for the Implementation of Joint Declaration on Strategic Partnership
June 2010	President Yudhoyono	G20 Summit in Canada Bilateral Meeting with President Hu	-Discussion on China-Indonesia strategic partnership
October 2010	Vice President Boediono	Official Visit to Beijing Met with Premier Wen and Vice President Xi	-Discussion on bilateral cooperation
November 2010	Chairperson NPC Wu Bangguo	Official Visit to Jakarta Met with President Yudhoyono	-Signed economic and trade cooperation agreements worth US\$6.6 billion
January 2011	Chairperson NPC Wu Bangguo	Official Visit to Jakarta Met with President Yudhoyono	-Discussion on bilateral cooperation

Date	Official	Purpose of Visit	Agreements/Achievements
April 2011	Premier Wen Jiabao	Official Visit to Jakarta Hosted by Vice-President Kalla	-Discussion on strengthening bilateral cooperation
Note: (1) Only official state visits and dedicated bilateral meetings of key state leaders are highlighted. (2) Official Visits by top party officials that involve meeting key state leaders are selectively included.			

As part of Indonesia's and China's efforts to develop closer bilateral relations, both countries signed the Joint Declaration of the Indonesia-China Strategic Partnership in April 2005. Since the signing of the agreement, both countries have expanded bilateral ties to include political, security, and defense cooperation. Various cooperative mechanisms have also been institutionalized to facilitate closer cooperation in the various fields.

A key part of Indonesia's strategic engagement has been to develop closer defense cooperation and military ties with China through bilateral defense diplomacy.<sup>132</sup> Under the strategic partnership framework, Indonesia pursued two key agendas. First, Indonesia implemented confidence building measures through dialogues and consultations, military exchanges, and combined training exercises. Since 2006, Indonesia and China have held annual defense consultations. As a sign of improving defense relations, two PLA Navy warships made a port call to Indonesia in March 2007. The signing of a defense cooperation agreement in 2007 led to exchanges of military students in their respective education and training institutions. In addition, the Tentara Nasional Indonesia (TNI)-PLA cooperation committee was also established as part of the defense agreement to coordinate joint military and training exercises. In 2011, Indonesia conducted its first joint anti-terrorism exercise (Sharp Knife 2011) with China. This was followed by a second exercise held in China in July 2012. Through these aspects of defense diplomacy,

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<sup>132</sup> Evan Laksmana, "Indonesia's Rising Regional and Global Profile: Does Size Really Matter?" *Contemporary Southeast Asia* 33, no. 2 (2011): 157–82, doi: 10.1355/cs33-2a.

Indonesia has strengthened military-to-military relations, enhanced mutual trust, and promoted the development of closer security cooperation.<sup>133</sup>

Second, Indonesia strategically engaged China to secure military assistance, weapons acquisition, and assistance in developing domestic defense industries. Since the U.S. arms embargo imposed on Indonesia from 1999 to 2005 due to human rights violations in East Timor, Indonesia has sought to find alternative arms suppliers and develop its indigenous defense industries. Beijing's assurance of providing arms and facilitating technology transfer "without any political strings" incentivized Indonesia to pursue closer defense partnership with China.<sup>134</sup> In July 2005, Indonesia and China signed an agreement to enhance defense technology cooperation. This was also followed with the purchase of C802 anti-ship missiles, which according to Ian Storey, was the "first major purchase of Chinese manufactured weapons by Jakarta since the mid-1960s."<sup>135</sup> Other proposed defense collaborations have followed, such as the agreement for joint production of military components and machines and the co-production of rocket launchers in 2008. However, despite the agreements signed, former Defense Minister Juwono claimed that defense collaboration "has been slow to develop due to reluctance on China's part to transfer technology."<sup>136</sup>

***c. Soft Balancing Policy: Mitigating the Potential Risks of a China Threat***

Indonesia has sought to mitigate the potential risks of a China threat through soft balancing, which is broadly defined as "tacit balancing short of formal alliance."<sup>137</sup> Indonesia's soft balancing policy against China is conducted through three channels: deepening military-defense ties with the United States to counterbalance China's growing

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<sup>133</sup> Ian Storey, "China's Bilateral Defense Diplomacy in Southeast Asia," *Asian Security* 8, no. 3 (2012): 287–310, doi: 10.1080/14799855.2012.723928; Ian Storey, "China and Indonesia: Military-Security Ties Fail to Gain Momentum," *China Brief* 9, no. 4 (2009): 6–8, <http://www.chinabrief.org>.

<sup>134</sup> Storey, "China and Indonesia," 7.

<sup>135</sup> Storey, "China and Indonesia," 7.

<sup>136</sup> Cited in Storey, "China's Bilateral Defense Diplomacy," 302.

<sup>137</sup> Thazha V. Paul, "Introduction: The Enduring Axioms of Balance of Power Theory and Their Contemporary Relevance," in *Balance of Power: Theory and Practice in the 21st Century*, ed. T. V. Paul, J. J. Wirtz, and M. Fortmann (Stanford University Press, 2004), 3. Cited in Hiep, "Vietnam's Hedging Strategy," 336.

military powers, improving bilateral relations with other major powers in Asia to counter against coercive pressure from China, and engaging China and the other major powers through ASEAN security institutions to maintain a stable balance of power.

Indonesia, like most of the other Southeast Asian states, views the continued U.S. presence in the region as the most effective means to hedge against the rise of China as a revisionist power. Although efforts to develop closer security and military ties were hampered by U.S. sanctions against Indonesia from 1999 to 2005, the continuation of security ties since 2005 have facilitated closer security, defense, and military cooperation between the two countries. In pressing for closer bilateral relations with the United States, President Yudhoyono proposed a comprehensive partnership agreement with the United States in 2008, which eventually led to the signing of the Indonesia-U.S. Comprehensive Partnership and the Defense Framework Agreement (DFA) in November 2010.<sup>138</sup> With the full restoration of Indonesian-U.S. military ties under the DFA, nearly 200 military exchanges and engagements have been conducted annually, and the United States has resumed arms sales to meet Indonesian defense requirements.<sup>139</sup>

While Indonesia has sought closer security relations with the United States through the Comprehensive Partnership and the DFA, it does not mean that Indonesia has chosen to align with the United States in balancing against China's rise. As alluded to by Ann Marie Murphy, Indonesia's commitment to its free and active policy means that "it foreswears alliances and would never permit foreign bases on its soil, thereby setting outer limits to U.S.-Indonesian security cooperation."<sup>140</sup> In addition, although "Indonesia values the offshore balancing role that the United States plays and helps facilitate this by permitting the United States access to naval bases and ship repair facilities. It does not, however, necessarily share an interest in maintaining U.S. primacy in the broader Asia-

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<sup>138</sup> Dewi Fortuna Anwar, "An Indonesian Perspective on the U.S. Rebalancing Effort toward Asia," *The National Bureau of Asian Research* 26 (2013), <http://www.nbr.org/research/activity.aspx?id=320>.

<sup>139</sup> Ernest Bower, "Engagement in the Indo-Pacific: The Pentagon Leads by Example," *Southeast Asia From the Corner* 4, no. 17 (2013), <http://csis.org/publication/engagement-indo-pacific-pentagon-leads-example>.

<sup>140</sup> Ann Marie Murphy, "Indonesia's Partnership with the United States: Strategic Imperatives versus Domestic Obstacles," in *Strategic Asia 2014–15: U.S. Alliances and Partnerships: At the Center of Global Power* (Washington, DC: National Bureau of Asian Research, 2011), 202.

Pacific.”<sup>141</sup> Therefore, Indonesia has chosen to pursue a soft balancing—rather than a hard balancing—policy to hedge against the risks of a future China threat.

Table 5. Indonesia’s Strategic Partnership Agreements with Major Powers.

Countries	Information on Strategic Partnerships
Australia	1995 Security Agreement (defunct); 2005 Joint Declaration on Comprehensive Partnership; 2006 Lombok Treaty
China	2005 Strategic Partnership
United States	2010 U.S.-Indonesia Comprehensive Partnership; 2010 Defense Framework Arrangement
Russia	2004-2005 Strategic Partnership
India	2005 Strategic Partnership; 2001 Defense Cooperation Agreement (ratified in 2008)
Japan	2008 Indonesia-Japan Economic Partnership Agreement
South Korea	2006 Strategic Partnership Agreement

In addition to the United States, Indonesia has sought to improve its bilateral relations with other major powers. Jakarta has signed strategic partnership agreements with Australia, Russia, Japan, India, and South Korea (see Table 5). Through diversifying its relations with other powers, Indonesia has provided some balance in countering China’s growing economic and political influence and avoiding being over-dependent on China, which would constrain its policy autonomy.

Besides bilateral engagements with all the major powers in the region, Indonesia has sought to create a “dynamic equilibrium” to ensure a balance of power in Southeast Asia.<sup>142</sup> Indonesia has played an active role in ASEAN to shape the regional security architecture and encourage “greater participation by other major and regional powers in the [ASEAN] regional processes,” which would facilitate a stable balance of power in the region.<sup>143</sup> One of the ways that Indonesia encouraged greater participation of major powers in the region was to lobby for the expansion of EAS membership to include Australia, India, New Zealand, and the United States. Indonesia’s objective of supporting an inclusive regional framework was to counterbalance China’s influence in the EAS.

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<sup>141</sup> Ibid., 215.

<sup>142</sup> Sukma, “Indonesia and the Emerging Sino-US Rivalry,” 44.

<sup>143</sup> Ibid.

In addition, Indonesia believes that regional security can only be attained “through a cooperative security system” where all major powers, including the United States and China, would have a strategic interest in regional peace and prosperity.<sup>144</sup> Indonesia has sought to promote the ASEAN community and a broader East Asian community through supporting and leading various ASEAN initiatives, which would “provide an institutional framework that would facilitate a cooperative relationship among the major power,” especially China.<sup>145</sup>

In sum, Indonesia’s hedging strategy in the first decade of the twenty-first century sought to benefit from China’s growing economy through closer bilateral cooperation while managing China’s rise through strategic engagement and soft balancing policies. It essentially kept to its free and active foreign policy approach by not aligning to any of the great powers and creating a dynamic equilibrium that has allowed Indonesia to promote a status quo regional order.

### **C. 2012–2015: INDONESIA’S POLICY AND RELATIONS WITH CHINA**

Indonesian elites have perceived China’s policy shifts under President Xi’s leadership from two perspectives. The first is the expectation of greater economic benefits if Indonesia was to align closer to China. The second is the perception of an increasing security threat from China due to Beijing’s greater aggressive actions in the SCS disputes and increasing attempts to revise the status quo. Nonetheless, even within the Indonesian elite circles, this threat perception has varied between Indonesia’s political and military elites, with the latter emphasizing a greater concern with China’s recent actions highlighted in Chapter II. Given these views, Indonesian elites continued to remain ambivalent with regards to China’s future intentions.

With the change in the Indonesian government after Jokowi Prabowo was elected as president in 2014, there has been a perceived adjustment in Indonesia’s hedging preference vis-à-vis China. Unlike Yudhoyono, who preferred to adhere to his foreign policy of “having a million friends and zero enemies” in dealing with China’s recent

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<sup>144</sup> Ibid., 42.

<sup>145</sup> Ibid., 44.

policy shifts, Jokowi has signaled that his government would adopt a stronger balancing stance against China. This section examines in greater details the shift in policy responses between Yudhoyono's government and the current Jokowi's government in dealing with the China challenge.

### **1. Yudhoyono's Government: Maintaining a Measured Response to the China Challenge**

As Indonesia's top trading partner and an increasingly important investor in Indonesia's economy, China has been viewed as a strategic partner that would facilitate Indonesia's continued economic growth and development. With China seeking to "build a more closely-knit China-ASEAN community of common destiny so as to bring more benefits to both China and ASEAN and to the people in the region," Yudhoyono's government proactively pursued a closer strategic partnership with China in order to bolster strategic cooperation, particularly in trade and investments, which would reap greater economic dividends.<sup>146</sup>

At the same time, Yudhoyono's government continued to actively hedge against a potentially revisionist China. However, he also cautiously avoided taking a confrontational position against China's persistent infringement of Indonesia's maritime waters that would jeopardize Indonesia's interest in cultivating stronger economic ties with China. These perspectives highlighted Yudhoyono's policy of maintaining his previous hedging preference of minimizing the potential China threat and maximizing the benefits and opportunities associated with China's rise.

#### ***a. Pursuing a Return-Maximizing Policy***

Indonesia's active engagements with China reflect the growing priority of China as a strategic partner in Indonesia's foreign policy agenda. With Xi's government seeking to develop deeper strategic relations with its Southeast Asian neighbors, Indonesia and China elevated their bilateral relations to a Comprehensive Strategic Partnership in 2013, with both sides pledging to strengthen strategic cooperation, especially in the areas of

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<sup>146</sup> Jiao Wu, "President Xi Gives Speech to Indonesia's Parliament," *China Daily*, October 2, 2013, [http://www.chinadaily.com.cn/china/2013xiapec/2013-10/02/content\\_17007915.htm](http://www.chinadaily.com.cn/china/2013xiapec/2013-10/02/content_17007915.htm).

promoting regional interconnectivity and economic integration.<sup>147</sup> With the elevation of ties, Indonesian and Chinese state leaders and top party officials have conducted high-level visits to bolster strategic cooperation, especially in the area of defense cooperation (see Table 6).

Table 6. Indonesia-China High-Level Visits (October 2013–October 2014)

Date	Official	Purpose of Visit	Agreements / Achievements
October 2013	President Xi Jinping	Official Visit to Jakarta Hosted by President Yudhoyono	-Comprehensive Strategic Partnership -5-year plan to grow trade -100 billion RMB bilateral currency swap agreement -Signing of business agreements worth \$28 billion
July 2014	Vice Chair CMC Fan Changlong	Official Visit to Jakarta Met with Vice-President Boediono, hosted by Defense Minister Yugisantoro	-Discussion to enhance bilateral military ties
September 2014	Defense Minister Yugisantoro	Official Visit to Beijing Met with Premier Li, Hosted by Vice Chair CMC Fan Changlong	-Signed Defense Cooperation Agreement related to missile production

Indonesia's policy of forging closer economic cooperation has boosted bilateral trade. Indonesia-China trade grew to US\$57.2 billion in 2013, accounting for 15.5 percent of Indonesia's world trade (see Table 7), and both countries have pledged to further strengthen cooperation to increase bilateral trade to US\$80 billion.<sup>148</sup> Nevertheless, there continue to be two key economic challenges for Indonesia. The first challenge is the bilateral trade imbalance, which has been in favor of China. In 2012 and 2013, the deficit reached US\$7 billion and US\$6.7 billion, respectively. Second, with increasing economic integration between the two economies and an increasing percentage of China's trade accounting for Indonesia's world trade, Indonesia is increasingly becoming more dependent on China's economy to sustain its economic growth. In the

<sup>147</sup> "Xi's Indonesia Visit Lifts Bilateral Ties, Charts Future Cooperation," *Xinhua*, October 3, 2013, [http://news.xinhuanet.com/english/china/2013-10/03/c\\_132770995.htm](http://news.xinhuanet.com/english/china/2013-10/03/c_132770995.htm)

<sup>148</sup> "Chinese, Indonesian Presidents Pledge Strategic Partnership," *Want China Times*, October 3, 2013, <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20131003000132&cid=1101>.

event of a slowing Chinese economy, it would also indirectly lead to slowing economic growth for Indonesia.

Table 7. Indonesia's Bilateral Trade Statistics with China (2012–2013).<sup>149</sup>

	2012	2013
<b>Exports to China + HK (US\$ billion)</b>	24.29	25.29
<b>Imports from China + HK (US\$ billion)</b>	31.32	31.94
<b>Trade Imbalance (US\$ billion)</b>	-7.03	-6.65
<b>Total Trade (US\$ billion)</b>	55.61	57.23
<b>Percentage of Indonesia's World Trade</b>	14.6%	15.5%

*b. Maintaining the Risk-Contingency Option*

In recent years, fears of the China threat have risen due to various Chinese actions against Indonesian maritime interests. As Murphy points out, “China has taken a number of aggressive actions against Indonesian interests in the Natuna Island waters.”<sup>150</sup> In 2010, an Indonesian patrol boat arrested a Chinese vessel fishing illegally within its EEZ, but China dispatched an armed maritime law enforcement vessel to force the Indonesian patrol boat to release the Chinese vessel. With China's recent aggressiveness in enforcing its sovereignty claims in the SCS, a more serious confrontation occurred in March 2013. In this incident, nine Chinese crew were caught fishing illegally in the Natuna waters, and they were transferred to the Indonesian patrol boat to be taken ashore. However, the Indonesians were forced to release the Chinese crew when an armed Chinese maritime law enforcement vessel pursued the Indonesian patrol boat and threatened the use of force unless the Chinese nationals were released.<sup>151</sup>

Indonesia has always viewed Beijing's nine-dash line claims with suspicion, given the potential overlap of China's claim with Indonesia's EEZ. China's nine-dash

<sup>149</sup> Statistics from UN Comtrade Data.

<sup>150</sup> Murphy, “Indonesia's Partnership with the United States,” 211.

<sup>151</sup> Scott Bentley, “Mapping the Nine-Dash Line: Recent Incidents Involving Indonesia in the South China Sea,” *The Strategist*, Australian Strategic Policy Institute, updated October 29, 2013, <http://www.aspistrategist.org.au/mapping-the-nine-dash-line-recent-incidents-involving-indonesia-in-the-south-china-sea/>.

line claims in the SCS continue to be a potential source of tension whenever China asserts sovereignty over the maritime areas within the nine-dash lines without providing clarity on the basis of the claims. In the latest controversy, China issued new Chinese passports with China's maritime boundaries that seemed to extend into Indonesia's territorial waters. In response, General Moeldoko, Commander of the Indonesian National Armed Forces, expressed his dismay that "China has included parts of the Natuna Islands within the nine-dash line, thus apparently claiming a segment of Indonesia's Riau Islands province as its territory."<sup>152</sup>

At the regional level, Indonesia views China as a threat to ASEAN unity and regional stability. According to Murphy, China's political leverage on some of the smaller ASEAN countries poses a threat to Indonesia's leadership in ASEAN: China's political coercion to force Cambodia not to issue a joint communique in 2012 was deemed "utterly irresponsible."<sup>153</sup> In order to salvage the situation, Indonesian Foreign Minister Natalegawa embarked on a shuttle diplomacy to secure a six-point consensus that was issued in place of the joint communique. With China's increasing political clout, forging an ASEAN consensus on China's assertiveness has split ASEAN unity, which is a threat to Indonesia's interest since ASEAN has traditionally been the cornerstone of its foreign policy to maintain regional stability.

Given the increased perception of threat, Yudhoyono's government continued to actively hedge against a potentially revisionist China. In particular, Yudhoyono pursued internal balancing and soft balancing policies to hedge against China's potentially revisionist rise.

#### (1) Internal Balancing Policy

With the perceived maritime security threat posed by Beijing's growing assertiveness, the Indonesian military has declared plans to increase its capabilities to protect Indonesia's maritime sovereignty near the Riau Islands. In his commentary in the

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<sup>152</sup> Moeldoko, "China's Dismaying New Claims in the South China Sea," *Wall Street Journal*, April 24, 2014, <http://www.wsj.com/articles/SB10001424052702304279904579515692835172248>.

<sup>153</sup> Murphy, "Indonesia's Partnership with the United States," 213.

*Wall Street Journal*, General Moeldoko revealed that “the Indonesia military has decided to strengthen its forces on Natuna . . . . to meet any eventuality stemming from heightened tensions on one of the world’s key waterways.”<sup>154</sup> Defense Minister Yusgiantoro similarly echoed in September 2014 that the Indonesian military would set up a defense base on Natuna Island to “secure the territories that border the South China Sea because the situation in those waters has been tense since several countries such as Vietnam, China, the Philippines, and Malaysia claimed the territorial waters as their own.”<sup>155</sup>

Indonesia has also embarked on an ambitious military modernization plan to develop its air and naval capabilities to defend its maritime sovereignty against external threats. In 2011, the Obama’s administration agreed to the sale of twenty-four used F-16 fighter aircraft as part of a US\$700 million arms deal. This was followed by a US\$500 million arms deal that included the controversial sale of eight AH64 attack helicopters in 2013.<sup>156</sup> Indonesia has also accorded priority toward procuring attack submarines for the navy. In addition, Indonesia’s navy has also ordered Sigma-class corvettes and fast attack vessels to strengthen its naval military capabilities.<sup>157</sup>

Indonesia’s military modernization has been funded through an increased defense budget (see Figure 1). From an annual military expenditure range of between US\$4.3 to US\$5.8 billion in 2009 to 2011, Indonesia’s defense spending have increased to a range of US\$8–9 billion from 2012 to 2014. More significantly, Indonesia’s defense military expenditure as a percentage of the country’s GDP and government spending have also increased. Against the backdrop of China’s greater assertiveness in the SCS and Indonesia’s increasing perception of a China threat, the significant increase in defense

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<sup>154</sup> Moeldoko, “China’s Dismaying New Claims.”

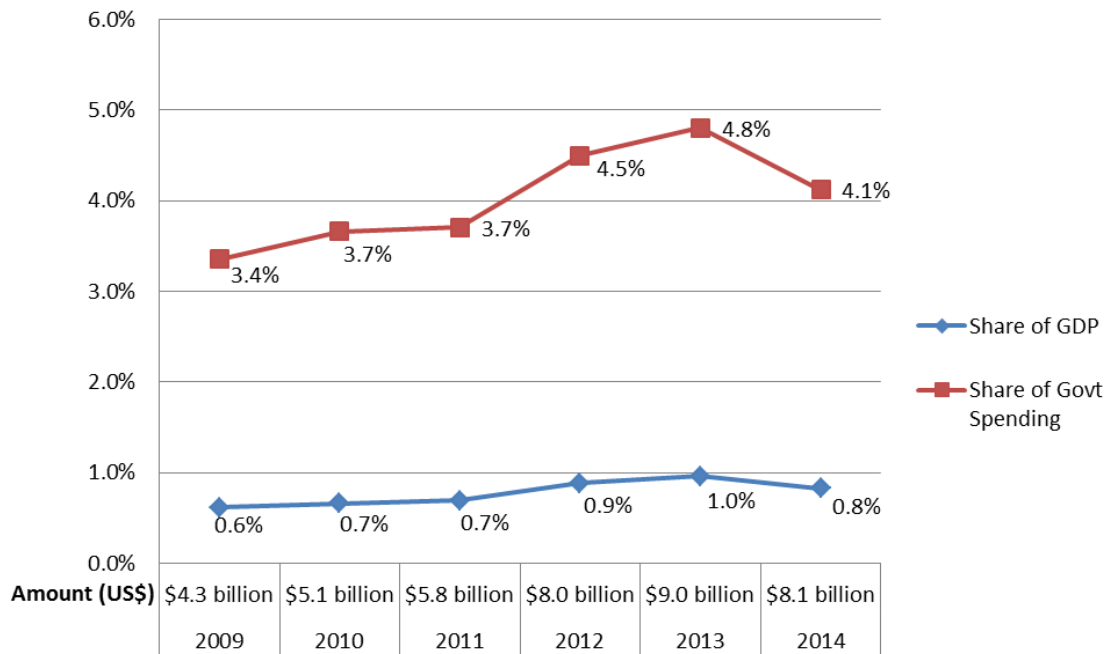
<sup>155</sup> Indra Wijaya, “Indonesia to Build Military Base in Natuna,” *Tempo English Online*, September 10, 2014, <http://en.tempo.co/read/news/2014/09/10/055605767/Indonesia-to-Build-Military-Base-in-Natuna>.

<sup>156</sup> Cheryl Pellerin, “Hagel Announces U.S. Deal to Sell Helicopters to Indonesia,” DOD News, U.S. Department of Defense, accessed July 4, 2015, <http://www.defense.gov/news/newsarticle.aspx?id=120674>.

<sup>157</sup> Felix Chang, “Comparative Southeast Asian Military Modernization—I,” *ASAN Forum: An Online Journal* 3, no. 3 (2015), <http://www.theasanforum.org/comparative-southeast-asian-military-modernization-1/>.

spending supports the proposition that Indonesia has focused on building up its military capabilities to address the security concerns of China's rise.

Figure 1. Indonesia's Military Expenditure (2009–2014).<sup>158</sup>



## (2) Soft Balancing Policy

Since the signing of the Indonesia-U.S. comprehensive partnership and the defense framework agreement in 2010, Indonesia has pursued closer political and security alignment with the United States to mitigate Indonesia's security concerns with regard to China's rise. The importance of this strategic partnership was affirmed during Indonesian Foreign Minister Marty Natalegawa's meeting with the U.S. Secretary of State John Kerry in May 2013, where Natalegawa emphasized that the comprehensive partnership between the two countries was "a partnership among friends, mutually beneficial . . . [with] a great deal of mutual interest."<sup>159</sup>

<sup>158</sup> Data source from SIPRI military expenditure database.

<sup>159</sup> John Kerry, "Remarks with Indonesian Foreign Minister Marty Natalegawa before Their Meeting," U.S. Department of State, updated May 16, 2013, <http://www.state.gov/secretary/remarks/2013/05/209509.htm>.

Under the ambit of the defense framework agreement, Indonesia and the United States have increased the conduct of joint exercises and collaborated on a range of maritime security issues. The largest bilateral exercise has been the annual Cooperation Afloat Readiness and Training exercises, which focuses on enhancing maritime security capabilities and increasing interoperability between the two navies. Sea surveillance exercises have also been conducted by both militaries near the Natuna waters since 2012, which is indicative of Indonesia's increasing perception of the China threat.<sup>160</sup>

## **2. Jokowi's Government: Leaning toward Balancing**

Since taking over as Indonesia's seventh president in October 2014, Jokowi has announced his vision of Indonesia as a global maritime axis, which would project Indonesia as a credible Indo-Pacific maritime power. Based on the maritime axis doctrine, Jokowi's focus on five key areas—maritime culture, maritime food sovereignty, maritime infrastructure and connectivity, maritime diplomacy, and maritime defense—would serve Indonesia's national interests by expanding its domestic economy, reasserting its authority over its maritime sovereignty, and enhancing its status as a regional middle power.<sup>161</sup>

With Jokowi's maritime axis doctrine driving Indonesia's foreign policy and security agenda, there has been continuity and shifts in Indonesia's policy toward China. Jokowi's government has continued to adopt an active hedging strategy by pursuing both return-maximizing and risk-contingency options toward China. However, with Jokowi's policy shift toward safeguarding Indonesia's sovereignty, Jokowi's government has also signaled that it will take a stronger stance against China's challenge of Indonesia's sovereignty. These three components of Jokowi's policy toward China are further elaborated in the following sections.

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<sup>160</sup> Sheldon Simon, "US-Southeast Asia Relations: South China Sea Wariness," in *Comparative Connections* 17, no. 1 (May 2015), [http://csis.org/files/publication/1501qus\\_seasia.pdf](http://csis.org/files/publication/1501qus_seasia.pdf).

<sup>161</sup> Rendi A. Witular, "Jokowi Launches Maritime Doctrine to the World," *Jakarta Post*, November 13, 2014, <http://www.thejakartapost.com/news/2014/11/13/jokowi-launches-maritime-doctrine-world.html>.

*a. Maintaining a Return-Maximizing Policy*

Jokowi has indicated that Indonesia will pursue a closer economic partnership with China to maximize the expectations of gains in trade and investments. With Indonesia's decelerating growth in the last four years, investments have been sorely needed to assist with economic reforms. Jokowi's vision of developing Indonesia into a maritime power requires substantial infrastructure investments to boost Indonesia's maritime economy. Indonesia's first coordinating minister for maritime affairs, Indroyono Soesilo, has stated that an estimated \$6 billion in investments is needed to transform Indonesia's port infrastructure.<sup>162</sup> In addition, to achieve the 7 percent annual growth in its economy, Indonesia would need around US\$740 billion for infrastructure development projects in the next five years.<sup>163</sup>

With the need for investments, Indonesia has turned to China for assistance in infrastructure development. Within Jokowi's first year in office, he has made three visits to Beijing (see Table 8) in order to court China to invest more in Indonesia's infrastructure development. Jokowi has explicitly stated that "he wanted the [bilateral] strategic partnership to take 'more concrete' forms," such as greater progress in the investment of infrastructure development.<sup>164</sup>

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<sup>162</sup> Adelle Neary, "Southeast Asia from Scott Circle: Jokowi Spells Out Vision for Indonesia's 'Global Maritime Nexus,'" *Center for Strategic and International Studies*, November 26, 2014, <http://csis.org/publication/southeast-asia-scott-circle-jokowi-spells-out-vision-indonesias-global-maritime-nexus>.

<sup>163</sup> "Why Indonesia Is Forging Closer Ties with China," *China Spectator*, November 20, 2014, <http://www.businessspectator.com.au/article/2014/11/20/china/why-indonesia-forging-closer-ties-china>.

<sup>164</sup> Robertus Wardhi and Primus Dorimulu, "Jokowi, Xi Push Bilateral Relations forward at APEC Meeting," *Jakarta Globe*, November 10, 2014, <http://thejakartaglobe.beritasatu.com/news/jokowi-xi-push-bilateral-relations-forward-apec-meeting/>.

Table 8. Indonesia-China High-Level Visits (November 2014–April 2015).

Date	Official	Purpose of Visit	Agreements / Achievements
November 2014	Foreign Minister Wang Yi	Official Visit to Jakarta Met with President Jokowi	-Discussion on maritime cooperation
November 2014	President Jokowi	Attend APEC in Beijing Bilateral Meetings with President Xi and Premier Li	-Discussion on trade and infrastructure cooperation
January 2015	Delegation led by Minister Sofyan Djalil	Bilateral Economic Dialogue Hosted by State Councilor Yang Jiechi	-High-level discussion to strengthen economic cooperation -Signed various MOUs for infrastructure development
March 2015	President Jokowi	Official Visit to Beijing Hosted by President Xi	-Signed Five-Year Action Plan -Signed eight agreements to boost cooperation on areas such as trade, infrastructure development, aviation, taxation and maritime cooperation
March 2015	President Jokowi	China-Indonesia Economic Cooperation Forum Hosted by Premier Li	-Companies from both countries signed around 30 deals worth US\$40 billion
April 2015	President Xi Jinping	Attend Asian-African Summit in Bandung Bilateral Meeting with President Jokowi in Jakarta	-Issued Joint Communiqué to further deepen and expand bilateral cooperation in a wider area, setting targets as a follow up to the Action Plan signed in March.

With both leaders recognizing that China's 21st Century Maritime Silk Road and Indonesia's global maritime axis initiatives would have potential overlapping benefits for both countries, Indonesia and China have pledged to "forge a maritime partnership for common development and shared prosperity."<sup>165</sup> Xi pledged China's commitment to "support Indonesia's efforts to accelerate maritime infrastructure development with the help of the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund."<sup>166</sup> In return, Jokowi has pledged to streamline investment processes and remove the red tape that has hindered the realization of Chinese investment projects.

Despite the expectation of positive economic benefits from the development of the Indonesia-China maritime partnership for common development, there are doubts about whether this strategic partnership would yield dividends. According to the

<sup>165</sup> Huanchi Xie, "China, Indonesia Vow to Further Deepen Comprehensive Strategic Partnership," *Xinhua*, April 22, 2015, [http://news.xinhuanet.com/english/2015-04/22/c\\_134175211.htm](http://news.xinhuanet.com/english/2015-04/22/c_134175211.htm).

<sup>166</sup> "China, Indonesia Pledge Closer Strategic Partnership," *Xinhua*, March 26, 2015, [http://news.xinhuanet.com/english/2015-03/26/c\\_134100693.htm](http://news.xinhuanet.com/english/2015-03/26/c_134100693.htm).

Indonesia's Investment Coordinating Board, only \$1.1 billion (or 6 percent) out of the planned US\$18.4 billion Chinese investments have been realized. Given the low amount of realized investment, China has been ranked 13th in terms of foreign direct investment in Indonesia, losing out even to Taiwan (see Figure 2). While bureaucratic red tape—to which Jokowi alludes—has been a factor that has affected realized Chinese investments, Jusuf Wanandi from the Center of Strategic and International Studies Foundation has also stated that “distrust was one of the main obstacles hampering the business relationship between Indonesia and China.”<sup>167</sup> This perception of distrust would certainly limit the trajectory of building closer strategic ties and the future expectation of economic benefits.

Figure 2. Foreign Direct Investment into Indonesia from 2010 to 2014 (US\$ million).<sup>168</sup>

Rank	Country	2010	2011	2012	2013	2014	Total (Q1-Q3)
1	Singapore	5,565	5,123	4,856	4,671	4,900	25,115
2	Japan	713	1,516	2,457	4,713	2,041	11,440
3	United States	931	1,488	1,238	2,436	966	7,059
4	South Korea	329	1,219	1,950	2,205	752	6,454
5	Netherlands	608	1,355	967	928	1,511	5,368
6	British Virgin I	1,616	517	856	786	437	4,212
7	United Kingdom	276	419	934	1,076	1,446	4,152
8	Malaysia	472	618	530	711	984	3,315
9	Mauritius	23	73	1,059	780	439	2,373
10	Hong Kong, RRT	566	135	310	376	499	1,886
Total top - 10 Countries		11,099	12,462	15,156	18,682	13,974	71,373
<b>12</b>	<b>Taiwan, RRT</b>	<b>47</b>	<b>243</b>	<b>647</b>	<b>403</b>	<b>108</b>	<b>1,448</b>
13	China	174	128	141	297	329	1,068
14	Swiss	130	9	255	125	118	637
Total (87 countries)		16,215	19,475	24,565	28,616	21,745	110,615

<sup>167</sup> Linda Yulisman, “Chinese Investors Encouraged to Realize RI Investment Plans,” *The Jakarta Post*, January 21, 2015, <http://www.thejakartapost.com/news/2015/01/21/chinese-investors-encouraged-realize-ri-investment-plans.html>.

<sup>168</sup> Figure taken from Yulisman, “Chinese Investors Encouraged to Realize RI Investment Plans.”

***b. Strengthening the Risk-Contingency Option***

Under Jokowi's government, there has been an emerging political-military consensus of China posing a maritime security threat within Indonesia. This consensus has resulted in Jokowi's government strengthening its internal balancing and soft balancing components of its hedging strategy to deal with the increasing Chinese military threat.

From an internal balancing perspective, Jokowi's government has pledged to strengthen its maritime defense force to protect Indonesia's maritime sovereignty. In his speech at the 2014 EAS, Jokowi asserts that "Indonesia is obligated to build its maritime defense power. This is necessary not only to secure its maritime wealth and sovereignty but also to take responsibility for safeguarding navigation safety and maritime security."<sup>169</sup> Jokowi has also announced that Indonesia's military buildup will be funded through an increased defense budget, which would grow from the current 0.8 percent of the gross domestic product (GDP) in 2014 to 1.5 percent within five years (approximately US\$20 billion).<sup>170</sup> As part of this military buildup, Indonesia's Coordinating Minister for Politics, Law, and Security, Tedjo Purdijatno, has stated that the increased budget will be used to acquire new submarines, patrol vessels, and combat ships.<sup>171</sup>

From the soft balancing perspective, Indonesia has sought to pursue a closer defense relationship with the United States through the signing of the Indonesia-U.S. 2015 action plan to expand military cooperation. According to General Ediwan Prabowo from Indonesia's Ministry of Defense, "the focus of cooperation . . . would involve the directorate general's defense strategy, defense planning and its defense potential."<sup>172</sup> Such comprehensive defense collaboration not only provides greater assurance to

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<sup>169</sup> Rendi Witular, "Presenting the Maritime Doctrine," *Jakarta Post*, November 14, 2014, <http://www.thejakartapost.com/news/2014/11/14/presenting-maritime-doctrine.html>.

<sup>170</sup> Murphy, "Indonesia's Partnership with the United States," 219.

<sup>171</sup> Neary, "Southeast Asia from Scott Circle."

<sup>172</sup> Fatiyah Wardah, "US, Indonesia Expand Military Cooperation Agreement," *Voice of America*, January 7, 2015, <http://www.voanews.com/content/us-indonesia-expand-military-cooperation-agreement/2589473.html>.

Indonesia of the U.S. security commitment in the region, it would also help Indonesia build its military capabilities to deal with external security threats.

Expanding military cooperation with the United States has also included the proposed conduct of regular military exercises near Natuna waters. Since 2014, Indonesia has hosted Exercise Komodo, a multilateral joint naval exercise that also involves the United States, in the Riau Islands province. According to Indonesia Navy spokesman Manahan Simorangkir, there are also plans to hold other joint exercises with the United States in the Riau Islands province on a more regular basis.<sup>173</sup> The conduct of these military exercises in the area suggests that Indonesia—in particular the Indonesian military elites—have perceived China as a security threat to Indonesia’s sovereignty, and one of the reasons for strengthening the Indonesia-U.S. military cooperation is to counter China’s growing assertiveness in the SCS dispute.

*c. Signaling of Indonesia’s Resolve to Safeguard Sovereignty*

The most significant policy shift between Yudhoyono’s and Jokowi’s foreign policy toward China has been Jokowi’s willingness to take a stronger stance against Chinese actions that challenge Indonesia’s national interests. Although Jokowi is aware of the potential political repercussions with antagonizing China, he has signaled that Indonesia will be willing to take a more assertive response against China in defending its maritime sovereignty. Jakarta has already demonstrated this resolve by revoking a 2013 bilateral agreement with China on fisheries and confiscating and sinking illegal Chinese fishing vessels caught in its territorial waters.<sup>174</sup> According to RSIS analysts, Indonesian officials have also warned Chinese diplomats of more assertive responses if Chinese

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<sup>173</sup> Kanupriya Kapoor and Randy Fabi, “Indonesia Eyes Regular Navy Exercises with U.S. in South China Sea,” *Reuters*, April 13, 2015, <http://www.reuters.com/article/2015/04/13/us-indonesia-us-southchinasea-idUSKBN0N40O320150413>.

<sup>174</sup> Prashanth Parameswaran, “China and Indonesia under Jokowi: Show Me the Money,” *Diplomat*, January 28, 2015, <http://thediplomat.com/2015/01/china-and-indonesia-under-jokowi-show-me-the-money/>.

patrol vessels were to violate Indonesia's sovereignty or conduct aggressive actions against Indonesian vessels in its territorial waters.<sup>175</sup>

With regards to the current SCS dispute, Indonesia has also publicly “announced that China’s nine-dash line map outlining its claims in the South China Sea overlaps with Indonesia’s Riau province, which included the Natuna Island chain”; this was followed by President Jokowi’s declaration that China’s nine-dash line claim “has no basis in any international law” during a press interview when he visited Tokyo on an official state visit.<sup>176</sup> Jokowi’s public statement on Indonesia’s position with regards to the SCS dispute has been considered significant since this was the first time that an Indonesian president has officially clarified Indonesia’s views on the dispute.

*d. Explaining Jokowi’s Hedging Strategy vis-à-vis China*

Although Jokowi has been in office for less than a year, his policy of strengthening Indonesia’s military capabilities, pursuing a closer security relationship with the United States, and adopting a more assertive stance against China’s challenges to Indonesia’s sovereignty suggest that his government is more inclined toward balancing China in its hedging strategy than his predecessor. Jokowi’s policy shift is likely to have been influenced by the emerging political-military consensus among Indonesian policymakers that China is an increasing security threat. These perceptions would have been reinforced by China’s recent assertive behaviors in the SCS disputes toward Vietnam and Philippines in the SCS dispute, and China’s aggressive actions and infringements in Indonesia’s territorial waters.

Some analysts have also argued that domestic politics have influenced Jokowi’s China policy toward the balancing end of the hedging spectrum. According to Aaron Connelly, “Jokowi faces a hostile opposition coalition and rebellious members of his own party in the legislature, with both sides ready to criticize the new President if he is seen as

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<sup>175</sup> Lis Gindarsah and Adhi Priamarizki, “Indonesia’s Maritime Doctrine and Security Concerns,” RSIS Publications, S. Rajaratnam School of International Studies (RSIS-NTU), April 9, 2015, <https://www.rsis.edu.sg/rsis-publication/idss/indonesias-maritime-doctrine-and-security-concerns/>.

<sup>176</sup> Kanupriya Kapoor and Linda Sieg, “Joko Says China Has No Legal Claim to South China Sea,” *Jakarta Globe*, March 23, 2015, <http://thejakartaglobe.beritasatu.com/news/joko-says-china-no-legal-claim-south-china-sea/>.

insufficiently nationalist.”<sup>177</sup> In view of the increasing coercive measures by Chinese Coastguard vessels in its EEZ, Jokowi has to demonstrate that he would address the China threat by adopting a stronger balancing posture in dealing with a more assertive China.

In the longer term, the potential for conflict with China exists in two forms. First, if Beijing chooses to continue asserting its nine-dash line claims aggressively and to challenge Indonesia’s sovereign territory, an escalation of conflict may be inevitable with Jokowi placing the defense of Indonesia’s sovereignty above other interests. Second, if China’s regional leadership ambitions include the establishment of a Sino-centric regional order, it would certainly create a conflict of interest with Indonesia’s ambition of becoming the maritime power in the region and the natural leader of the ASEAN-centric community. In view of the likely possibility of these two scenarios, the adjustment of Indonesia’s hedging preferences toward the balancing end of the hedging spectrum would serve to bolster Jokowi’s commitment of prioritizing Indonesia’s national interests, its maritime sovereignty, and ambition of becoming a regional maritime power above all other perceived benefits.

#### **D. CONCLUSION**

Indonesia’s hedging strategy vis-à-vis China reflects the compromise between enhancing Indonesia’s future security and pragmatic economic factors. Under Yudhoyono’s government, Indonesia has continued to develop closer relations with China—despite the persistent wariness of China as a security threat and the uncertainty of China’s hegemonic intentions—in order to accrue economic benefits that would help expand Indonesia’s under-developed economy. Concurrently, Yudhoyono’s government had actively mitigated the potential risk of an escalating China threat through developing a close strategic defense partnership with the United States and ensuring a dynamic equilibrium of power in the region.

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<sup>177</sup> Aaron L. Connolly, “Sovereignty and the Sea: President Joko Widodo’s Foreign Policy Challenges,” *Contemporary Southeast Asia* 37, no. 1 (2015): 21, doi: 10.1355/cs37-1a.

Given the increasing perception of threat with China's rising powers and greater assertive behaviors in the region, early indicators suggest that Jokowi's government has shifted closer toward balancing in the hedging spectrum. With Jokowi's commitment toward expanding Indonesia's maritime defense capabilities, defending Indonesia's maritime sovereignty, and prioritizing Indonesia's national interests over great power relations, it is likely that any conflict of interest with China would be met with a more assertive balancing response.

Nevertheless, despite the increased perception of the China threat, Jokowi requires Chinese investments to build up its maritime economy. Given that the core of Jokowi's maritime axis policy is centered on domestic development, Jokowi would continue to be pragmatic in pursuing a closer strategic relationship with China for the purpose of helping Indonesia achieve its maritime power status in the region. In the interim, it is expected that Jokowi's government would tread carefully in its hedging strategy by taking a more proactive approach in strengthening its risk-contingency options while cautiously preventing the escalation of tensions in the bilateral relationship so that Indonesia can continue to maximize economic gains and achieve Indonesian prosperity.

## **IV. THAILAND'S CHINA POLICY**

Like Indonesia, Thailand's perception of China's rise has been dominated by two conflicting perspectives. The first is an optimistic perspective that China is building a mutually beneficial economic relationship, presenting opportunities for strategic cooperation, and reducing threat perceptions of China's growing military power. The other perspective regards China's rising powers and the uncertainty of its long-term intentions as a strategic concern. Hence, Thailand's long-standing hedging strategy has been to maintain close relationships with China and the United States in order to strategically benefit from both sides and to ensure greater policy maneuvering space.

Despite China's recent assertiveness and structural pressures to balance China's growing powers, there has been a noticeable shift in Thailand's hedging preference toward greater strategic engagement and accommodation policies with China. This chapter examines Thailand's operationalization of its China hedging strategy since the turn of the twenty-first century and explains the recent shifts in Thailand's hedging preferences. This chapter contends that the positive Sino-Thai historical relations and Thailand's optimistic views of China's rise have contributed to the relatively low perception of the China threat; nevertheless, it has been domestic politics that has been the key driver of Thailand's recent shifts in hedging preferences. These evidences support the hypothesis that the incumbent Thai ruling elites have sought closer Sino-Thai relations to leverage the benefits associated with China's rise in order to bolster their political legitimacy.

### **A. 1975–2000: THAILAND-CHINA HISTORICAL RELATIONS**

Since the normalization of diplomatic ties in 1975, the Sino-Thai relationship has grown from an initially shaky friendship to strategic partners in the space of fifteen years. One of the key events during the Cold War period that helped forge the strategic partnership was the Vietnamese invasion of Cambodia in December 1978. According to Thai scholar Chulacheeb Chinwanno, the Cambodia conflict “brought about a convergence of security interests between Thailand and China that resulted in strategic

cooperation.”<sup>178</sup> Their common interests to drive the Vietnamese forces out of Cambodia led to Thailand and China becoming de-facto allies. Consequently, both countries developed a comprehensive strategic partnership that covered political, military, and economic cooperation: Thailand supported China’s “bleeding Vietnam white” strategy in ASEAN forums despite firm opposition by other members, and Bangkok worked closely with Beijing to find a diplomatic solution that would end the conflict; a slew of economic and trade agreements were signed between 1985 and 1987, which increased bilateral trade and investments; and China transferred military weapons to Thailand and concluded two arms deals at friendship prices.<sup>179</sup> When the Cambodia conflict officially ended with the 1991 Paris Peace Agreement, Thailand had become China’s closest strategic partner in Southeast Asia.

During the 1990s, Thailand continued to maintain close relations with China even though China’s rising material powers, defense modernization, and provocative actions had created the perception in other countries of potential Chinese revisionist intentions in Southeast Asia. In particular, many ASEAN states viewed China’s aggressive actions with apprehension after the Johnson South Reef skirmish with Vietnam in 1988 and the occupation of the Mischief Reef in 1995. The firing of missiles into the Taiwan Straits during the Taiwan crisis in 1996 further reinforced regional perceptions that China would use military force to resolve disputes. Instead of criticizing China’s assertive policies, Thailand became China’s interlocutor in ASEAN and encouraged China to partake in ASEAN’s multilateral dialogues in order to promote security and stability in the region.<sup>180</sup>

Concurrently, Thailand pursued a policy of economic engagement to bolster bilateral ties. Chinwanno claims that “the majority of Thai leaders perceived the rise of China as an opportunity. . . . They believed that economic growth in China should be

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<sup>178</sup> Chulacheeb Chinwanno, *Thai-Chinese Relations: Security and Strategic Partnership*, RSIS Working Paper No. 155 (24 March 2008): 11, <http://www.rsis.edu.sg/wp-content/uploads/rsis-pubs/WP155.pdf>.

<sup>179</sup> See Chinwanno’s working paper for a detailed discussion on China-Thailand cooperation during the Cambodia conflict. Chinwanno, *Thai-Chinese Relations*, 10–17.

<sup>180</sup> Murphy, “Beyond Balancing and Bandwagoning,” 11.

encouraged not only because it created valuable trade and investment opportunities but also because it kept China stable and facilitated its integration into the regional community and the world, giving China a stake in the international status quo.”<sup>181</sup>

If China’s assertive policies in the SCS disputes had raised any perceived fears of China’s revisionist intentions, then Beijing’s overtures during the Asian financial crisis would have reassured Thailand’s political elites that China was a status quo power and a reliable strategic partner. Beijing’s decisions to provide \$1 billion as a bailout package to Thailand, extend a \$2 billion credit line under the Chiang Mai Initiative, and prevent the devaluation of the Yuan helped Thailand to eventually recover from the crisis. Besides earning Thai goodwill, China had also demonstrated “a capacity and willingness to shoulder the responsibility of a great power in a manner consistent with the status quo.”<sup>182</sup>

By the start of the twenty-first century, the Sino-Thai relationship had evolved into a strategic partnership in which Thailand views China’s rise as an opportunity rather than a threat. Ian Storey attributes the evolution of this “special relationship” in the 1990s to three key factors: the absence of territorial disputes, Beijing’s financial assistance to Thailand during the economic crisis, and the assimilation of “Thailand’s sizeable ethnic Chinese community” that has served as a “useful bridge between the two countries.”<sup>183</sup> Thailand became the first Southeast Asian state to sign the “Plan of Action in the 21st Century” with China, which aimed to promote a more comprehensive bilateral cooperation in the economic, political, military, and security realms.<sup>184</sup> This agreement formed the basis for Thailand to pursue an even closer Sino-Thai relationship in the twenty-first century.

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<sup>181</sup> Chulacheeb Chinwanno, “Rising China and Thailand’s Policy of Strategic Engagement,” in *The Rise of China: Responses from Southeast Asia and Japan*, ed. J. Tsunekawa, NIDS Joint Research Series No. 4 (Tokyo, Japan: The National Institute for Defense Studies, 2009), 98.

<sup>182</sup> Murphy, “Beyond Balancing and Bandwagoning,” 12.

<sup>183</sup> Ian Storey, “A Hiatus in the Sino-Thai ‘Special Relationship,’” in *China Brief* 6, no. 19 (2006), <http://www.jamestown.org/programs/chinabrief/archivescb/cb2006/>.

<sup>184</sup> “Joint Statement of the Kingdom of Thailand and the People’s Republic of China on a Plan of Action for the 21st Century,” Thailand-China Business Link, Kasikornthai, last accessed July 4, 2015, <http://www.thailand-china.com/ThaiandChinaLinks/BilateralAgreements.aspx?lang=en-GB>.

## **B. 2001–2011: THAILAND’S POLICY AND RELATIONS WITH CHINA**

By the turn of the twenty-first century, Thailand and China had developed a close relationship through more than two decades of amity and cooperation. At the same time, Thai policymakers continued to view U.S. commitments to the region as crucial for Thailand’s security and placed an emphasis on balancing Thailand’s relations with both the great powers. This section examines the evolving considerations and implementation of Thailand’s hedging strategy vis-à-vis China during the time period between 2001 and 2011.

### **1. Strategic Considerations in Thailand’s China Policy**

Thailand’s hedging strategy toward China has been strongly influenced by three strategic considerations. First, Thai policymakers viewed China’s rise as an opportunity for greater strategic cooperation. In particular, China’s economy was seen as the key driver of regional economic growth, and the ruling elites viewed Thailand’s economic prosperity as increasingly linked to China’s growing economy. Second, Thai policymakers regarded China as a benign power because they have built a long history of friendly relations, which have been relatively free of conflicts. In addition, Thailand does not have any territorial disputes with China, which reduces the perception of China as a security threat.

Third, although there has been a lack of a direct security threat from China, scholars and analysts have pointed to the strategic uncertainty of China’s rising powers as a potential concern among Thai policymakers. Goh argues that “long-term strategic worries” regarding China’s rise have prevented Thailand from bandwagoning with China “in spite of their close relations,” but on the other hand, these worries have also not been sufficient to elicit a balancing response.<sup>185</sup> Similarly, Denny Roy contends that “while Thais are not completely free of suspicions about the possible consequences of a strong

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<sup>185</sup> Goh, “Meeting the China Challenge,” 19.

China (hence the need for hedging), the current sense of perceived threat appears to be minimal.”<sup>186</sup>

Given the strategic uncertainties of China’s rise and the ambiguous perception of a China threat, both Goh and Roy have agreed that Thailand has pursued a hedging strategy of engaging China through economic, strategic, and security cooperation while concurrently hedging against a more assertive China through maintaining close defense ties with the United States. Such a policy ensures greater policy maneuvering space in the event that China becomes a revisionist power, and yet, it continues to allow Thailand to maximize the short-term economic benefits associated with China’s rise.

## **2. Implementing the Hedging Strategy**

Based on these strategic considerations, Thailand’s hedging strategy consisted of increasing its engagements with China while balancing against potential Chinese aggression through strengthening the Thai-U.S. alliance relationship. In addition, Thailand’s hedging preference was to maintain an equally close relationship with the United States and China. From these perspectives, Thailand operationalized its hedging strategy through four key policies: economic pragmatism, strategic engagement, limited-bandwagoning, and indirect balancing.

### ***a. Economic Pragmatism Policy***

Similar to Indonesia, Thailand’s intent of pursuing a pragmatic economic policy were to maximize economic gains in order to facilitate domestic development. In addition, establishing closer economic linkages and deeper economic ties raised the incentives for China to pursue cooperative and stable relationships at the bilateral and regional level. Chinwanno postulated in 2009 that the Thai elites encouraged greater economic cooperation “not only because it created valuable trade and investment opportunities but also because it kept China stable and facilitated its integration into the

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<sup>186</sup> Denny Roy, “Southeast Asia and China: Balancing or Bandwagoning?” *Contemporary Southeast Asia: A Journal of International and Strategic Affairs* 27, no. 2 (2005): 313, doi: 10.1353/csa.2011.0115.

regional community and the world, giving China a stake in the international status quo.”<sup>187</sup>

One of the key ways that Thailand promoted greater economic cooperation in the early 2000s was through the establishment of FTAs. At the regional level, Thailand was a firm supporter of the ASEAN free trade negotiations with China, which led to the signing of the CAFTA framework in 2002. At the same time, Thailand pursued its own negotiations and signed the Sino-Thai FTA in 2003, which leveraged on the early harvest program linked to the CAFTA.<sup>188</sup>

With greater trade and investment ties, China became a major contributor to Thailand’s growth after the Asian financial crisis, and Thailand leveraged on China’s growing economy for economic gains. In 2000, Thailand’s total trade with China amounted to US\$6.18 billion, accounting for 4.7 percent of Thailand’s total imports and exports. By 2010, Thailand’s trade with China increased to US\$45.71 billion, accounting for 12.1 percent of Thailand’s total trade.<sup>189</sup> China rose from being Thailand’s fourth largest trading partner in 2000 to become Thailand’s second largest trading partner in 2010. Chinese foreign direct investments in Thailand increased from US\$11.5 million in 2005 to a high of US\$706 million in 2010.<sup>190</sup> An economic pragmatic policy enabled Thailand to develop closer trade and investment ties with China, which significantly contributed to Thailand’s economic growth and development.

While growing economic ties and the Sino-Thai FTA presented huge opportunities for Thailand to stimulate its economic growth, there were concerns of China as an economic threat. The opening up of China’s economy diverted foreign direct investments away from Thailand, and the Thai domestic manufacturers were not able to compete with the low-cost Chinese manufacturers. The FTA also permitted Chinese

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<sup>187</sup> Chinwanno, “Rising China and Thailand’s Policy,” 98.

<sup>188</sup> The Sino-Thai FTA falls under the ambit of the larger China-ASEAN FTA. The Sino-Thai FTA allows Thailand to take advantage of the “Early Harvest” clause that has been built into the China-ASEAN FTA.

<sup>189</sup> Statistics compiled from <http://comtrade.un.org/data/>.

<sup>190</sup> Statistics compiled from Bank of Thailand website, updated April 30, 2015, <http://www2.bot.or.th/statistics/ReportPage.aspx?reportID=654&language=eng>.

goods to flood Thailand's markets, but non-tariff barriers on the Chinese side prevented the free flow of Thai goods to China markets. The agricultural early harvest provisions in the Sino-Thai FTA led to the economic hardship of rural farming households who were not able to compete with the cheap agricultural Chinese produces.<sup>191</sup> Despite the economic challenges and competition between Thailand and China, Thai policymakers downplayed these perceived "short-term" concerns and evinced a positive outlook that "Thailand will be able to adjust to potential Chinese economic competition as its industries are forced to find niches in the market or to move up the value chain in production."<sup>192</sup>

***b. Strategic Engagement Policy***

From 2001 to 2011, Thailand sought closer strategic engagements through three key channels: conducting frequent high-level meetings, signing of bilateral agreements to expand multi-dimensional engagements with China, and pursuing closer military-security cooperation.

First, official state visits to China were always high on the priority list for Thailand's newly appointed prime ministers, reflecting the importance of the Sino-Thai relationship. These visits often resulted in the discussion or signing of bilateral cooperation agreements (see Table 9). In reciprocation, China's president, premier, or foreign minister visited Bangkok at least once a year to hold discussions on strategic cooperation. Thaksin aptly described the warm Sino-Thai relationship during the thirtieth anniversary of Sino-Thai diplomatic ties when he declared that "Thailand and China are like brothers."<sup>193</sup>

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<sup>191</sup> Murphy, "Beyond Balancing and Bandwagoning," 14.

<sup>192</sup> Evelyn Goh, "Meeting the China Challenge: The U.S. in Southeast Asian Regional Security Strategies," *Policy Studies* 16 (2005): 18, <http://scholarspace.manoa.hawaii.edu/handle/10125/3509>.

<sup>193</sup> Storey, "Hiatus in the Sino-Thai 'Special Relationship.'"

Table 9. Thai Prime Ministers' State Visits to China (2001–2011).<sup>194</sup>

Appointment	Prime Minister	Visit to China	Agreements / Achievements
Feb 1—Sep 6	Thaksin Shinawatra	Aug / Oct 2001, Feb 2003, Feb 2004, Jul 2005	2001: Issue of Joint Communiqué 2003: Discussion on Sino-Thai FTA (signed Jun 3) 2005: Amended Agreement of Sino-Thai FTA, Celebration of 30th Anniversary of Diplomatic Ties
Oct 6—Jan 8	Surayud Chulanont	May 2007	2007: Joint Action Plan on Sino-Thai Strategic Cooperation
Jan 8—Sep 8	Samak Sundaravej	Jun 2008	2008: Signed contracts worth US\$400 million
Dec 8—Aug 11	Abhisit Vejjajiva	Jun 2009, Sep 2010	2009: Signed three Agreements: (1) Protocol on Inspection and Quarantine Requirements for Thai Fruit Exports from Thailand to China, (2) Agreement on Expanding and Deepening Bilateral and Economic Trade Cooperation, (3) Agreement on Education Cooperation

Second, Thailand followed up with a series of key agreements to promote a multi-dimensional strategic engagement with China. In August 2001, China and Thailand issued a joint communiqué during Thaksin's China visit to consolidate the strategic Sino-Thai partnership and promote greater strategic cooperation. Subsequent negotiations to expand Sino-Thai strategic cooperation led to the implementation of the 2007 Joint Action Plan, which identified fifteen areas of cooperation that span the economic, political, military-security, cultural, and social realms. These agreements helped to forge closer bilateral relations, foster mutually beneficial cooperation, and promote common developments.

The third channel of strategic cooperation pursued by both countries was focused on the military-security realm. In 2001, Thailand became the first ASEAN country to institutionalize military relations by holding annual high-level defense and security dialogues with China. In 2005, the first joint naval exercise, codenamed China-Thailand Friendship 2005, was conducted off the Gulf of Thailand. The commitment to defense and military cooperation was further enhanced through the signing of the 2007 Joint Action Plan, which called for greater military exercises to cooperate on countering non-

<sup>194</sup> Information from Thailand's and PRC's Ministry of Foreign Affairs websites.

traditional security threats and humanitarian assistance and disaster relief (HADR). The first such exercise, codenamed Strike 2007, involved Special Forces from both sides. The counter-terrorism exercises were conducted again in 2008 and 2010.<sup>195</sup> Through these means, Thailand's military diplomacy served to enhance mutual trust between the two countries.

In addition, military cooperation resulted in Thailand looking to China for arms purchases. According to the Stockholm International Peace Research Institute (SIPRI), Thailand was the second largest Chinese arms buyer in Southeast Asia between 2000 and 2010.<sup>196</sup> Thai purchases of Chinese military equipment have to be viewed from a political angle rather than a military one: the purchases of significant Chinese arms, such as the rocket-propelled grenade launchers in 2001 and the \$98 million order for two patrol vessels in 2002, were initiated when Thaksin was pursuing a closer strategic engagement with China. Similarly, the purchase of Chinese C-802 anti-ship missiles worth \$48 million was paid for using Chinese military credits extended to Thailand after the United States suspended Thailand's military aid in the aftermath of the 2006 military coup.<sup>197</sup>

Nevertheless, there were limitations on establishing closer military ties with China because Thailand had to take into consideration its long-standing security alliance with the United States. According to Storey, Thailand was cautious of "balancing relations between the United States and China"; while Thailand desired to increase military exercises with China, it was also sensitive to potential U.S. concerns of conducting conventional joint exercises with China because it would expose American tactics and weapon capabilities to the PLA.<sup>198</sup> Therefore, when China proposed to conduct a joint amphibious landing exercise in 2009, Storey argues that the Thai government was cautious to limit the scale and scope of the exercise.<sup>199</sup> As a

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<sup>195</sup> Storey, "China's Bilateral Defense Diplomacy," 303–304.

<sup>196</sup> Data from Stockholm International Peace Research Institute, <http://www.sipri.org/>.

<sup>197</sup> Storey, "China's Bilateral Defense Diplomacy," 300.

<sup>198</sup> *Ibid.*, 303.

<sup>199</sup> *Ibid.*, 304.

consequence, Sino-Thai military exercises were often symbolic and act as confidence building measures, rather than to increase interoperability and professional training between the two militaries.

**c. *Limited-Bandwagoning Policy***

The policy of limited bandwagoning refers to a state's political partnership with a rising great power through "policy coordination on selective issues" or "voluntary deference given to the larger partner" in the hope of securing present gains or future rewards.<sup>200</sup> From this perspective, Thailand has shown great deference to China on political issues such the Falun Gong movement, Taiwan, and Tibet. In 2001 and 2003, Thaksin's government ceded to Beijing's request to curb the activities and meetings of the Falun Gong in Thailand.<sup>201</sup> The Thai government pledged allegiance to the One China policy, and it demonstrated its allegiance in 2003 when the foreign ministry withdrew the visas to Taiwanese legislators before a high-level Chinese official was due to visit Bangkok.<sup>202</sup> The Thai government also repeatedly denied visas to the Dalai Lama and his immediate family. In addition, the Thai foreign ministry, at the request of Beijing, intervened in 2010 to scale down a Tibetan cultural event held in Bangkok. Thailand's foreign ministry justified its actions by claiming that the government reserved the right "to reject any politically related issue which might affect good relations with another country."<sup>203</sup>

Thailand's limited-bandwagoning behavior toward China was also witnessed in ASEAN institutions. Thailand never raised objections to China's uncooperative attitude in the South China Sea disputes unlike some other ASEAN members. During Thailand's

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<sup>200</sup> According to Kuik, limited bandwagoning is clearly differentiated from pure bandwagoning because limited bandwagoning does not involve "pure political and military alignment" or the "acceptance of superior-subordinate relations." See Kuik, "The Essence of Hedging," 168.

<sup>201</sup> Storey, "Hiatus in the Sino-Thai 'Special Relationship.'"

<sup>202</sup> Lyall Breckon, "China-Southeast Asia Relations: Focus Is Elsewhere, but Bonds Continue to Grow," *Comparative Connections* (April 2003): 4, [http://csis.org/files/media/isis/pubs/0301qchina\\_seasia.pdf](http://csis.org/files/media/isis/pubs/0301qchina_seasia.pdf).

<sup>203</sup> Supalak Ganjanakhundee and Pravitt Rojanaphruk, "Dalai Lama's Sister Denied Visa," *Nation*, March 4, 2010, <http://www.nationmultimedia.com/home/2010/03/04/national/Dalai-Lamas-sister-denied-visa-30123902.html>.

chairmanship of ASEAN from 2008 to 2009, it avoided placing the dispute on the agenda. In addition, Thai elites also viewed Beijing as a partner in pushing for common foreign policy goals. An often cited example is the collaboration between Thailand and China to launch the Asian Cooperation Dialogue in 2002. According to Kavi Chongkittavorn, Thailand's accommodation toward China led Chinese leaders to view Thailand as a "reliable ASEAN voice with predictable views and positions on China," which is usually oriented toward China interests.<sup>204</sup>

**d. Indirect Balancing Policy**

Indirect balancing is a policy "undertaken by individual states unilaterally or bilaterally, aimed at deterring a range of potential threats."<sup>205</sup> Thailand's indirect balancing policy aims to ensure the continued U.S. military presence in the region to act as deterrence against potential military threats. According to Goh, "these balancing policies are indirect, because they 'borrow' U.S. military power, are not explicitly targeted against specific Chinese military threats, and are often undertaken in the name of other types of security interests shared with the United States."<sup>206</sup>

Thailand pursued an indirect balancing policy by strengthening its close defense relationship with the United States, which resulted in Thailand being recognized as a major non-NATO ally in 2003. Thailand counterbalanced its growing engagements with China by strengthening the U.S.-Thai relations through three ways. First, Thailand supported the U.S. war efforts in Afghanistan and Iraq by providing logistical support, opening Utapao airbase to American aircraft for refueling, and sending military personnel to assist with the reconstruction efforts from 2003 to 2004. Second, Thailand hosted numerous joint military exercises together with the United States, including the annual Cobra Gold exercise that has become the largest multilateral exercise in Asia. Third, strategic cooperation was institutionalized through the conduct of the U.S.-Thailand

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<sup>204</sup> Kavi Chongkittavorn, "Thailand as a Pivotal Chinese Partner," *Nation*, April 17, 2012, <http://www.nationmultimedia.com/opinion/Thailand-as-a-pivotal-Chinese-partner-30180018.html>.

<sup>205</sup> Evelyn Goh, "Great Powers and Hierarchical Order in Southeast Asia: Analyzing Regional Security Strategies," *International Security* 32, no. 3 (2007/08): 132, doi: 10.1162/isec.2008.32.3.113.

<sup>206</sup> *Ibid.*, 133.

Strategic Dialogue and the U.S.-Thailand Strategic Defense Talks, which fostered close defense and security cooperation.<sup>207</sup>

Although observers have assumed Thailand's designation as a major non-NATO ally points to an external-balancing strategy against China, three key pieces of evidence contradict this hard-balancing perception. First, the origin of the U.S.-Thai alliance was a legacy of the Cold War era to deal with communism. The Thai-U.S. alliance, unlike the Japan-U.S. alliance, was not updated after the Cold War to guard against Thailand's perceived security threats, despite the many opportunities for the Thai government to do so. Second, Thailand viewed the alliance as a means to anchor U.S. commitments in the region to enhance security stability, rather than to target a specific China threat. As Goh points out, Thai officials have been "particularly careful to explain that these commitments are not geared toward China per se; instead they are seen as an important means of facilitating continued American interest and engagement in the region" as a form of "psychological reassurance."<sup>208</sup> Third, Thailand was designated as a major non-NATO ally because of its contributions toward the U.S. war on terrorism and reconstruction efforts in Afghanistan and Iraq. In addition, the rise of terrorism in Southeast Asia places Thailand as a pivotal state in the war against terrorism; hence, the elevation of Thailand to a non-NATO ally would allow the United States to provide Thailand with the necessary military assistance and aid to deal with non-traditional security threats.<sup>209</sup>

### **C. 2012–2015: THAILAND'S POLICY AND RELATIONS WITH CHINA**

Since 2012, Thailand has shifted its hedging preference toward greater strategic engagement and bandwagoning with China. Based on the balance of power perspective, the structural changes in the form of China's growing powers and Beijing's assertive policies in the region (as discussed in Chapter II) should have encouraged Thailand to adopt a stronger balancing policy in its hedging strategy. In addition, a balancing policy

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<sup>207</sup> Pavin Chachavalpongpun, "Competing Diplomacies: Thailand amidst Sino-American Rivalry," *Southeast Asian Affairs* (2011): 310–12, doi: 10.1353/saa.2011.0006.

<sup>208</sup> Goh, "Meeting the China Challenge," 26.

<sup>209</sup> Murphy, "Beyond Balancing or Bandwagoning," 17–22.

could have been easily adopted given that its traditional ally, the United States, was actively seeking deeper strategic cooperation to counterbalance China's rise. Instead, Thailand has adopted a hedging strategy oriented toward greater strategic engagement and bandwagoning with China in order to enhance greater economic and political benefits, rather than to minimize the potential security risks associated with China's rise.

In order to understand Thailand's hedging behaviors since 2012, the intervening role of domestic politics has to be considered. At the domestic level, Yingluck's Peua Thai Party (PTP) won the July 2011 elections and adopted an accommodative China strategy focused on commerce-centric policies. Political in-fighting eventually led to General Prayuth Chan-ocha seizing power through a coup in May 2014 and establishing a military government. In order to understand Thailand's hedging behaviors since 2011, the intervening role of domestic politics has to be considered. The political instability in Thailand had a greater effect on Sino-Thai relations than structural changes in the regional geopolitical landscape as the incumbent Thai ruling elites downplayed the security concerns and threat perceptions of China's rise in order to leverage on the benefits associated with China's rise, so that the Thai elites could enhance their political legitimacy at home.

### **1. Yingluck's PTP Government: Upgrading the Sino-Thai Relationship**

Under Yingluck's government, Thai policymakers viewed China as pivotal to Thailand's strategy in coping with its domestic and regional challenges. During a closed-door session held in March 2012, Kavi Chongkittavorn reports that participants from the various government ministries, private sector, and academia "agreed unanimously that Thailand must look beyond the U.S. alliance, which was more advantageous during the Cold War, and strengthen engagement with China."<sup>210</sup> The importance of China as a strategic partner has driven Thailand to upgrade their bilateral relations to a "comprehensive strategic cooperative partnership" during Yingluck's visit to Beijing in

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<sup>210</sup> Kavi Chongkittavorn, "Thailand Looks beyond the U.S. Alliance," *The Nation*, April 17, 2012, <http://www.nationmultimedia.com/opinion/Thailand-looks-beyond-the-US-alliance-30179152.html>.

April 2012.<sup>211</sup> Two five-year action plans, covering strategic and economic bilateral cooperation, were signed to enhance the strategic partnership between the two countries.

China's increasing importance as a strategic partner to Yingluck's government was also evident from Thailand's economic data: bilateral trade increased from US\$45.71 billion in 2011 to US\$64.96 billion in 2013, accounting for 13.6 percent of Thailand's total trade; China was Thailand's second largest foreign investor in 2012 and 2013; and China overtook Japan as Thailand's largest trade partner in 2013.<sup>212</sup> In pursuing further economic and financial cooperation, both countries signed a 325 billion baht currency swap deal that would increase bilateral trade.<sup>213</sup> With China's increasing importance to Thailand's economy, Yingluck's government viewed China as instrumental in ensuring Thailand's continued economic growth.

A close Chinese relation was also important to Yingluck's government because Beijing indirectly supported some of the populist policies implemented during Yingluck's term. A notable example was China's agreement to buy the huge stockpiles of rice that have built up due to Yingluck's populist rice-pledging scheme. Despite having sufficient supply of rice domestically, Beijing offered to purchase one million tons of rice a year from Thailand through Chinese firms and an undisclosed amount through a government-to-government deal.<sup>214</sup>

In addition, Chinese investment was perceived to be important in developing the transport infrastructure required for developing Thailand's rural north and northeast provinces, which has been the political support base for Yingluck's party. Beijing signed agreements with Yingluck's government to invest in building up Thailand's train and water infrastructure. In return, Thailand supported China's Maritime Silk Road and AIIB

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<sup>211</sup> "China, Thailand Upgrade Bilateral Ties, Vow Closer Trade Links," *Xinhua*, [http://news.xinhuanet.com/english/china/2012-04/18/c\\_131533612.htm](http://news.xinhuanet.com/english/china/2012-04/18/c_131533612.htm).

<sup>212</sup> Statistics compiled from <http://comtrade.un.org/data/>.

<sup>213</sup> Jon Fernquest, "Thai-China Deals Signed," *Bangkok Post*, December 23, 2011, <http://www.bangkokpost.com/learning/learning-from-news/272219/thai-china-deals-signed>.

<sup>214</sup> "Thai PM Say China Pledges to Buy 1 Million Tonnes of Rice a Year," *Chicago Tribune*, October 13, 2013, [http://articles.chicagotribune.com/2013-10-13/news/sns-rt-china-thailandrice-20131013\\_1\\_thai-pm-unmilled-rice-translates-thai-rice-exporters-association](http://articles.chicagotribune.com/2013-10-13/news/sns-rt-china-thailandrice-20131013_1_thai-pm-unmilled-rice-translates-thai-rice-exporters-association).

initiatives, which would provide the much-needed infrastructure funds to meet Thailand's developmental requirements.

In pursuing a more comprehensive cooperation, Yingluck's government also enhanced defense cooperation and military-to-military relations. After Yingluck's first state visit to Beijing in April 2014, Thailand's defense minister and all the military service chiefs visited Beijing, which, according to Storey, was the "highest ranking Thai defense delegation to visit China in 15 years."<sup>215</sup> During the visit, both countries agreed to hold their first combined military exercise involving both Royal Thai and PLA Air Forces. This agreement was considered a breakthrough in defense cooperation because the Thai military has traditionally been reluctant to hold conventional military exercises in the past due to potential U.S. objections. In addition, both ministers discussed the possible acquisition of Chinese submarines at friendship prices, which is an indicator of potential political alignment. The purchase of Chinese submarines would be a deviation from Thailand's previous preferences of not buying high-end defense equipment from China—despite the friendship prices—due to the perceived inferior quality of Chinese military equipment.<sup>216</sup>

With regards to the U.S. strategic pivot announced in 2010, Yingluck's government was ambivalent toward the U.S strategy and became reticent in dealing with any request that involved the stationing of American assets in Thailand bases for fear of straining bilateral ties with China. In 2012, the United States made two separate requests to use Utapao airbase: the National Aeronautics and Space Administration (NASA) requested the use of the airbase for its research aircraft to conduct regional climate studies, and the Pentagon requested to use the airbase for supporting HADR missions in the region. According to Kitti Prasirtsuk, Thai policymakers viewed these requests as part of the U.S. strategic pivot to increase its military footprints and to balance against China. The reluctance to antagonize China, coupled with fierce debates led by the opposition

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<sup>215</sup> Ian Storey, "From Strength to Strength: Military Exercises Bolster Sino-Thai Relations," *China Brief* 12, no. 12 (2012): 10, [http://www.jamestown.org/uploads/media/cb\\_06\\_03.pdf](http://www.jamestown.org/uploads/media/cb_06_03.pdf).

<sup>216</sup> *Ibid.*, 10–11.

parties against the U.S. requests, forced Yingluck's government to defer these requests.<sup>217</sup>

Thailand's ambivalence toward the announced U.S. strategic pivot suggests a China-oriented Thai foreign policy. However, there were two perspectives to this ambivalence: On the one hand, Yingluck's government continued to view the U.S. presence in the region as essential for regional stability and prosperity, and the Thai-U.S. alliance was crucial in helping Thailand to deal with non-traditional security challenges. Therefore, Yingluck's government continued to pursue a close relationship with the United States as seen through the "2012 Joint Vision Statement for the Thai-U.S. Defense Alliance" and the Joint Statement issued during President Obama's visit to Thailand in November 2012.<sup>218</sup>

On the other hand, although Thailand is an ally to the United States, Graham asserts that "Thai observers have prevailing negative opinions of the implications of the rebalance strategy," which has been viewed as "a battlefield for alliance and partnership cultivation."<sup>219</sup> From Thailand's past experiences, the United States had not been a reliable partner in providing unwavering support when Thailand was dealing with the Cambodian crisis in 1978, the Asian financial crisis in 1997, and its political crisis in 2006. Given the uncertainty of the U.S. commitment and with China replacing the United States as the most important strategic and economic partner in the region, Yingluck's government was reluctant to forego the domestic benefits associated with close Sino-Thai relations in favor of strengthening the Thai-U.S. relations. As a consequence, Yingluck's government prioritized a China-oriented foreign policy over closer Thai-U.S. security relations.

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<sup>217</sup> Kitti Prasirtsuk, "The Implications of U.S. Strategic Rebalancing: A Perspective from Thailand," *Asia Policy* 15 (2013): 35, doi: 10.1353/asp.2013.0013.

<sup>218</sup> "Thailand/United States: Joint Statement Between President Barack Obama and Prime Minister Yingluck Shinawatra," *Asia News Monitor*, November 19, 2012, ProQuest: 1170559996.

<sup>219</sup> Euan Graham, "Southeast Asia in the U.S. Rebalance: Perceptions from a Divided Region," *Contemporary Southeast Asia: A Journal of International and Strategic Affairs* 35, no. 3 (2013): 319, doi: 10.1353/csa.2013.0022.

## 2. Prayuth's Government: Moving toward Bandwagoning with China

If Yingluck's foreign policy has been perceived as the beginning of a China-oriented hedging preference, then the military coup in May 2014 has accelerated Thailand's recalibration of its hedging strategy toward greater bandwagoning with China. With the downgrade of the Thai-U.S. relations and the suspension of trade negotiations with the West following the coup, Prayuth's government has embraced increasing bilateral cooperation with China in order to gain economic and political benefits. It has also sought to develop intimate ties with China—a bilateral relation that Thai Foreign Minister General Tanasak Patimapragorn declares as a lover's relationship.<sup>220</sup>

From an economic perspective, Prayuth's government has been compelled to strengthen trade and investments with China in order to deliver on economic reforms and boost economic growth. With Thailand's annual economic growth rate reduced to 0.5 percent due to the political turmoil in 2014, Prayuth has downplayed the potential concerns of Thailand's over-dependence on China and has chosen to adopt a pro-China economic policy. The boosting of ties with China has secured significant economic benefits. In December 2014, Chinese Premier Li Keqiang met with Prayuth in Bangkok and signed several bilateral agreements. Of significance was the deal to double China's imports of agricultural goods (like rubber and rice) and the pledge to buy two million tons of rice. In addition, China signed an agreement worth US\$12 billion to jointly develop Thailand's train infrastructure.<sup>221</sup>

Besides the economic benefits, the bilateral agreements have politically benefited the military government by helping to meet some of the financial commitments it has made since seizing power. In order to secure political legitimacy, Prayuth's government had ordered the distribution of funds to pay the rice farmers who were owed money by Yingluck's government under the rice-subsidy scheme. In addition, Prayuth had pledged

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<sup>220</sup> “‘If I were a Woman I will Fall in Love with his Excellency’: Thai General Admits Man Crush on China’s Foreign Minister Wang Yi,” *South China Morning Post*, August 7, 2015, <http://www.scmp.com/news/asia/diplomacy/article/1847007/if-i-were-woman-i-will-fall-love-his-excellency-thai-general>.

<sup>221</sup> “Thailand Eyes Increased Bilateral Cooperation with China,” *Asia Briefing*, January 12, 2015, <http://www.asiabriefing.com/news/2015/01/thailand-eyes-increased-bilateral-cooperation-china/>.

almost 40 percent of Thailand's 2014 fiscal budget toward development projects in the rural provinces.<sup>222</sup> With the bilateral agreements, Thailand would be able to sell off the rice stockpile, generate some cash flow to repay the rice farmers, and gain financial assistance to develop the country's transport infrastructure that would benefit the rural provinces.

Under Prayuth's government, the strengthening of military, defense, and security cooperation with China has received substantial focus, and it comes at a time when the Thai-U.S. defense cooperation has stalled after the military government took over. During the Chinese defense minister's visit to Bangkok in February 2015 and Thailand's defense minister's reciprocal visit to Beijing in April 2015, both sides finalized the planning for the first joint air exercise and agreed to further expand their current joint military exercises. On defense cooperation, China has agreed to explore joint arms development and expand the proposed sales of high-end military equipment at friendship prices. On security cooperation, both parties agreed to enhance mechanisms to share intelligence and to deal with non-traditional security threats.<sup>223</sup>

The rapid progress in military, defense, and security cooperation points to the possibility of the Thai military government seeking to establish a new form of Sino-Thai security relationship that could potentially rival the Thai-U.S. alliance, which has traditionally been the cornerstone of Thailand's security policy. Thai policymakers have expressed greater interests toward furthering cooperation with China vis-à-vis the U.S.; in the draft of the "National Security Strategy 2015–2021" developed by the National Security Council, Thailand wants to "maximize its relations with rising China in all areas [rather than the U.S.] as 'Thailand and China do not have territorial and national conflicts at all.'"<sup>224</sup>

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<sup>222</sup> Pavin Chachavalpongpun, "Leaning on Thailand's Junta," *New York Times*, June 30, 2014, [http://www.nytimes.com/2014/07/01/opinion/leaning-on-thailands-junta.html?\\_r=0](http://www.nytimes.com/2014/07/01/opinion/leaning-on-thailands-junta.html?_r=0).

<sup>223</sup> Wanquan Chang, "Thailand: Thailand-China to Expand Comprehensive Cooperation in Security," *Asia News Monitor*, February 10, 2015, Proquest ID: 1652372927; Patsara Jikkham and Wassana Nanuam, "Thailand, China Deepen Defense Ties," *Bangkok Post*, April 24, 2015, <http://www.bangkokpost.com/news/security/540599/thailand-china-deepen-defence-ties>.

<sup>224</sup> Kavi Chongkittavorn, "Surge in Sino-Thai Security Cooperation," *Nation*, February 9, 2015, <http://www.nationmultimedia.com/opinion/Surge-in-Sino-Thai-security-cooperation-30253669.html>.

Thailand's political accommodation and bandwagoning with China is also evident from other recent events, such as Bangkok's repatriation of over 100 Uighur people to China in July 2015. While Thailand has not been the only country that recently deported Uighur refugees back to China, it was the large numbers of deportation that elicited a backlash—from the United States, Turkey, and international human rights organizations—criticizing Thailand's acquiescence to China's demand “for reasons of realpolitik.”<sup>225</sup> Although Prayuth defended his decision by stating that the government ensured that only Uighur refugees with Chinese citizenships were repatriated after a long decision-making process, he had also made known in press statements that Thailand did not want to destroy the relationship with China over the Uighur issue.<sup>226</sup>

Nevertheless, Thailand has diversified its hedging policy by seeking deeper bilateral ties with other major powers. Since 2013, Thailand has established a strategic partnership agreement with Japan and India, and initiated talks with Moscow to upgrade the Thailand-Russia relations to a strategic partnership.<sup>227</sup> Prayuth's government has continued this diversification strategy by seeking to strengthen relations with Japan and India. Thailand and Russia have also rekindled their strategic relationship through signing a slew of bilateral agreements covering economic and security cooperation when Russian Minister Medvedev visited Bangkok in April 2015. Thailand's pursuit of deepening strategic relations with other major powers serves as a “dominance-denial” policy in a hedging strategy. According to Kuik, such a policy aims to prevent China as a rising great power from exerting undue influence on smaller states like Thailand.<sup>228</sup> Therefore, through seeking deeper bilateral ties with other major powers, Prayuth's government has sought to maintain a more balanced relationship with China and other major powers to provide some resilience against China exerting undue interference on Thailand and to provide Thailand with greater policy options.

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<sup>225</sup> “Anger over Thailand's Repatriation of Uighurs to China,” *National*, July 9, 2015, <http://www.thenational.ae/world/east-asia/anger-over-thailands-repatriation-of-uighurs-to-china>.

<sup>226</sup> Matt Schiavenza, “Why Thailand Forced Uighurs to Return to China,” *Atlantic*, July 12, 2015, <http://www.theatlantic.com/international/archive/2015/07/thailand-china-uighur-refugees/398318/>.

<sup>227</sup> Information from Thailand's MFA website, <http://www.mfa.go.th/main/en/media-center>.

<sup>228</sup> Kuik, “Essence of Hedging,” 170.

With the proposed elections being pushed back to 2016, Prayuth has to maintain his political legitimacy through increasing economic growth, finding new markets for Thailand's agricultural goods, and seeking support of the rural populations through economic development policies and infrastructure building. Pursuing a closer alignment with China and strengthening Thailand's strategic relations with other major powers would continue to be Prayuth's hedging preference as long as U.S. policy restrictions toward the military government are not lifted.

#### **D. CONCLUSION**

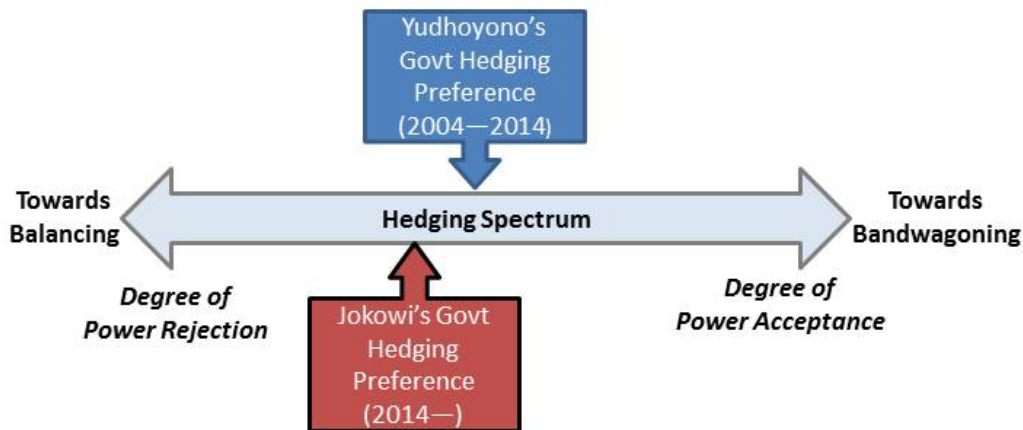
Hedging has continued to be Thailand's main strategy in coping with China's growing powers and influence in the region. Nonetheless, Thailand's hedging preferences have shifted in accordance with domestic considerations. Under Yingluck's government, the low perception of a China threat and the expected gains of a closer relation with China have encouraged Thailand to prioritize economic and strategic engagement with China in order to increase the political legitimacy of the ruling government. Under Prayuth's government, Thailand has strategically aligned itself with China because Beijing's strong political and economic support provided Prayuth's regime with the means to bolster his political legitimacy at home. With Prayuth still in power, Sino-Thai relations would continue to deepen based on these perceived political and economic benefits.

With China having overtaken the United States as Thailand's most important strategic partner, it is unlikely that Thailand would go back to the status quo of maintaining an equidistant relationship between the two great powers even after Thai-U.S. relations are restored in the future. Assuming that China does not exhibit any security threat to Thailand, it is more plausible that Thailand's future hedging preference would continue to be more accommodative of China's interests as it seeks to maximize the economic and political benefits associated with China's peaceful rise.

## V. CONCLUSION

Beijing's adjustment of its peaceful development policy since 2012 has generated different policy responses from Indonesia and Thailand. For Indonesia, Xi's policy of a more proactive and assertive approach—in shaping the regional environment and safeguarding China's national interests—has generated an increasing perception of threat and greater strategic uncertainty about China's rise among Indonesian elites. Even though China's increasingly proactive engagement of the region has brought about greater expectation of benefits to Indonesia, these perceived benefits have not been sufficient to mitigate the security concerns of a potential China challenge to Indonesia's sovereignty. As a result, Indonesia has been more inclined to move toward the balancing end of the hedging spectrum, which is evident from its increasing emphasis in building up its military capabilities and strengthening its defense relationship with the United States (see Figure 3).

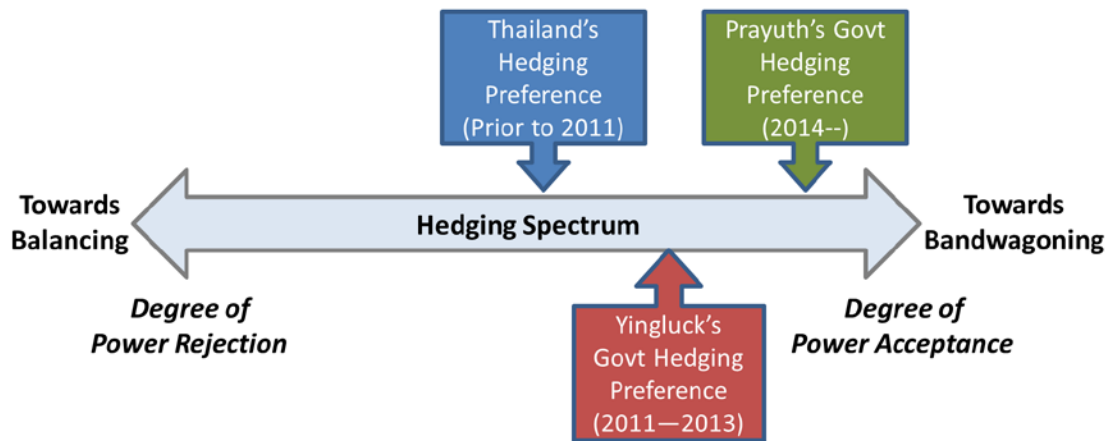
Figure 3. Indonesia's Shift in Hedging Posture toward China



In contrast, Thailand has moved toward the bandwagoning end of the hedging spectrum (see Figure 4). Although structural changes in the form of China's rising powers and increasing assertiveness in the region should have increased the perception of the China threat, the ruling elites in Yingluck's and Prayuth's government have focused instead on the tremendous benefits that a closer Sino-Thai relationship would bring to

Thailand. With Beijing proactively reaching out within Southeast Asia to enhance win-win cooperation and develop deeper strategic relations, Thailand has reciprocated by seeking closer strategic Sino-Thai engagement to benefit from China's continued rise.

Figure 4. Thailand's Shift in Hedging Posture toward China



The different strategic considerations of Indonesia's and Thailand's responses to China's policy shifts also highlight that structural changes alone do not account for a state's policy choices: domestic factors do exert an intervening effect on policy outcomes to different extents. The following sections examine the geopolitical and domestic political factors that have shaped Indonesia's and Thailand's hedging preferences.

#### A. ANALYSIS OF THE SHIFTS IN INDONESIA'S CHINA POLICY

The different hedging preferences between Yudhoyono's government and Jokowi's government warrant greater analysis in understanding the shift in policy behaviors between the two governments. While geopolitical factors have reinforced the increased perception of threat since 2012, domestic political factors seem to be the intervening variable that has incentivized Jokowi's government to implement a more assertive stance against China and adopt a hedging strategy that leans toward balancing.

## **1. Geopolitical Factors: Reinforcing the China Threat Perception**

From the geopolitical perspective, Indonesia's increased perception of the China threat since 2012 may be attributed to four factors. First, China's historical nine-dash line claim and its overlap with Indonesia's EEZ continue to be unresolved; this has led to escalating incidents of Chinese paramilitary vessels harassing Indonesian patrol vessels and preventing them from arresting Chinese-registered boats fishing illegally within Indonesia's territorial waters. In addition, with President Xi asserting that China will "firmly uphold China's maritime rights and interests" and "continue to improve [China's] capacity to provide such protection," Indonesia is worried that China would act even more belligerently toward Indonesia in upholding China's maritime claims as the PLA continues to expand and modernize its naval capabilities.<sup>229</sup>

Second, as an archipelagic state, Indonesia views the growing tensions in the SCS caused by China's belligerent actions as a significant threat to its security. Given that the SCS is contiguous with Indonesia's territorial waters, any militarized conflict in the SCS would disrupt Indonesia's economic trade and affect Indonesia's maritime security.

Third, even if China and Indonesia continue to maintain that there are no maritime disputes between the two countries, Indonesia would still view China's aggressive actions in the current SCS dispute with trepidation, especially if China's current actions are indicative of its future behavior as a great power and how it deals with conflicts of interests in the region. If China is willing to utilize strong-arm tactics to bully smaller states into submission, Indonesian policymakers would certainly be worried that China would also use similar tactics to resolve any conflicts of interests with Indonesia.

Fourth, there remains the strategic uncertainty about China's regional ambitions and whether it will seek to create a Sino-centric regional order. As Southeast Asia's largest power and natural leader of ASEAN, Storey asserts that "Indonesia will continue to regard itself as the country destined to lead Southeast Asia into the twenty-first

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<sup>229</sup> Xi Jinping, "The Central Conference on Work Relating to Foreign Affairs was Held in Beijing," Ministry of Foreign Affairs of the People's Republic of China, November 29, 2014, [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1215680.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1215680.shtml).

century.”<sup>230</sup> China’s regional leadership ambitions would certainly result in a greater likelihood of competition with Indonesia for geopolitical influence in Southeast Asia. Indonesia would view any attempts by China to revise the status quo regional order with great concern, and it will strive to maintain a balance of power to ensure its independence as a middle power in the region.

## **2. Rising Nationalism: The Incentive to Balance**

Although geopolitical factors may explain why Indonesian elites view China as an increasing security threat, it does not adequately address why Yudhoyono chose to adhere to his foreign policy of “million friends and zero enemies” rather than responding with greater assertiveness in defending Indonesia’s maritime sovereignty. Although there have been repeated demands—especially from military circles—to respond to China’s encroachment with stronger measures, Yudhoyono had resisted demands from within his government to take a harder line against China.

The likely reason for Yudhoyono’s conciliatory approach toward China is the potential economic benefits to be gained from China’s rise. Despite the economic challenges associated with the implementation of CAFTA, growing bilateral trade and investments have contributed to Indonesia’s rising economic performance in the past decade. Hence, Yudhoyono cautiously avoided portraying China as a possible security or economic threat so that Indonesia would be able to establish closer bilateral ties and benefit economically from increasing mutual cooperation.

Despite downplaying the portrayal of the China threat, Yudhoyono was astute enough to recognize that Indonesia would need to hedge against China’s rising powers in order to mitigate the potential security risks of China as a revisionist power. During Yudhoyono’s presidential term, his “million friends and zero enemies” foreign policy built warm relations with major Asia-Pacific powers, which enabled Indonesia to maintain a balance of power in the region. In addition, Yudhoyono started to accord greater priority toward defense spending in order to modernize Indonesia’s air and naval military capabilities to deal with the potential Chinese military threat.

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<sup>230</sup> Storey, *Southeast Asia and the Rise of China*, 211.

Although Indonesia benefited from China's expanding economy, Connelly contends that Yudhoyono's foreign policy faced strong criticisms within his government because his policy agenda "sacrificed Indonesia's interests in favor of friendly relations with other world leaders."<sup>231</sup> In the face of rising nationalist sentiments in Indonesia, Yudhoyono's weak responses to China's encroachments into Indonesian waters were heavily criticized. It is within this context of rising nationalism that Jokowi has had to deal with China's challenge to Indonesia's national interests.

Under Jokowi's government, Indonesia's policy focus has shifted toward placing Indonesia's national interests as the utmost priority. With the focus on protecting Indonesia's maritime resources and territorial sovereignty, Indonesia has viewed China's encroachment into its maritime sovereignty as a threat that required an assertive response. China's threat to Indonesia's sovereignty and the failure of Jokowi's government to respond assertively would certainly undermine his policy of building Indonesia into a respected maritime power in the region.

In addition, rising nationalism and domestic party politics have placed pressure on Jokowi to deliver on his pledges of safeguarding Indonesia's maritime resources and sovereignty. If Jokowi is seen to be too soft in addressing China's disregard for Indonesia's sovereignty, he would face significant political backlash within his party and from the opposition coalition. With rising nationalism playing a part in dictating Indonesia's foreign policy, it is clearly in Jokowi's interest to seek stronger balancing measures in order to mitigate the China threat.

## **B. ANALYSIS OF THE SHIFTS IN THAILAND'S CHINA POLICY**

In contrast to Indonesia, Thailand faces a different set of geopolitical and domestic circumstances. From a geopolitical perspective, Thailand has viewed China's rise more positively than Indonesia. From a domestic political perspective, the incumbent ruling party's desire to bolster its political legitimacy in the midst of political in-fighting has incentivized Thailand's ruling elites to lean toward bandwagoning.

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<sup>231</sup> Aaron L. Connelly, "Sovereignty and the Sea: President Joko Widodo's Foreign Policy Challenges," *Contemporary Southeast Asia* 37, no. 1 (2015): 4, doi 10.1355/cs37-1a.

## **1. Geopolitical Factors: Reducing the China Threat Perception**

Thailand's lower perception of the China threat compared to Indonesia can be attributed to two key factors: Thailand does not have any common borders or major territorial disputes with China, and China's aggressive actions in the SCS have few negative effects on Sino-Thai relations since Thailand does not have a direct security interest in the SCS. Instead, China's charm diplomacy and political, economic, and military support for Thailand over the years have reinforced a positive perception of China's current rise in spite of Beijing's recent assertiveness in the SCS dispute.

Even if Thai ruling elites remain wary of China's potential revisionist ambitions, they have tended to downplay these security concerns and adopt a pragmatic approach in dealing with China due to geopolitical considerations. As a small mainland state in close proximity to China, Thailand has been conscious of China's rising power, and it has adapted to China's inevitable rise by deepening its long-standing strategic partnership with China. As long as China does not pose an existential threat to Thailand's survival, Thai elites recognize that a policy of strategic engagement and accommodation, which facilitate the convergence of interests and mutual cooperation, would best serve Thailand's national interests in the long term.

In addition, with Thailand's economy becoming increasingly integrated with China's growing economy, it would also be reasonable to assume that China's political influence over Thailand has also increased. In fact, many analysts had predicted in the mid-2000s that Thailand would lean toward bandwagoning with China. For example, David Fullbrook anticipated that "as trade and investment grow, China's economic gravity will wrest Thailand from a century of Western embrace."<sup>232</sup> Similarly, China analyst Bronson Percival postulated that Thailand would align closer to China in order to "reap the benefits of an emerging Sino-centric order."<sup>233</sup> Therefore, strategically and economically speaking, downplaying the security concerns in favor of greater

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<sup>232</sup> David Fullbrook, "Thailand in China's Embrace," *Asia Times Online*, April 9, 2004, [http://www.atimes.com/atimes/Southeast\\_Asia/FD09Ae04.html](http://www.atimes.com/atimes/Southeast_Asia/FD09Ae04.html).

<sup>233</sup> Storey, *Southeast Asia and the Rise of China*, 143.

engagement would be a more pragmatic approach toward accommodating China's rise in the region.

## **2. Political Legitimization: The Incentive to Bandwagon**

Although geopolitical factors favor a hedging policy orientated toward bandwagoning, it is domestic politics that have been the key driver of Thailand's recent shifts in hedging preferences. Yingluck's government viewed China as instrumental in ensuring Thailand's continued economic growth, which, in turn, was crucial toward supporting many of the populist policies implemented during her term. For Prayuth's government, given the way his government came to power, the military ruling elites have been compelled to strengthen the Sino-Thai economic relations to deliver on the promised reforms and to bolster economic growth in order to strengthen their own legitimacy. Furthermore, with the Western democratic countries such as the United States and the European Union refusing to recognize the legitimacy of Prayuth's government and downgrading their relations, the military elites' alignment with a supportive China has bolstered their political legitimacy, at least in the short term.

Thailand's downplaying of the potential China threat in exchange for the expectation of economic and political gains supports the hypothesis that domestic legitimization is a key intervening factor in Thailand's hedging preferences and policy choices. As Kuik has asserted, "a country's key foreign policy decision (e.g., towards a rising power) is often a product of domestic legitimization, a process through which the ruling elite seeks to act in a way that conforms to the bases of its domestic legitimacy with the ultimate end of enhancing its authority and capacity to govern."<sup>234</sup> Yingluck's and Prayuth's governments adopted hedging strategies oriented toward greater strategic engagement and bandwagoning with China in order to maximize the returns of economic and political benefits. These hedging shifts were the result of the ruling elites' prioritization of benefits over security concerns associated with China's rise in order to enhance their political legitimacy at home.

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<sup>234</sup> Cheng-Chwee Kuik, "Making Sense of Malaysia's China Policy: Asymmetry, Proximity, and Elite's Domestic Authority," *The Chinese Journal of International Politics* 6 (2013): 437, doi: 10.1093/cjip/pot006.

### C. THE EFFECTS OF THE U.S. FACTOR IN HEDGING

A potential variable not addressed in this thesis is the role of the United States in Indonesia's and Thailand's hedging strategy. It has been widely acknowledged that the United States is Southeast Asia's security guarantor against China's potentially revisionist ambitions; hence, the U.S. relationship is possibly an important factor in the effectiveness of hedging against China and the shaping of a country's hedging preference. The importance of the U.S. factor has been a subject of previous studies. For example, Jae Ho Chung explored the correlation between East Asia's responses to China's rise and the effect of the "U.S. alliance" variable in shaping these responses. He concluded that "the alliance variable is particularly powerful: that is, a status change from a non-ally to a semi-ally would reduce a nation's probability of belonging to bandwagoners by 32.2 percent. Similarly, a change from an ally to a semi-ally would reduce a nation's probability of belonging to balancers by 34.9 percent."<sup>235</sup>

In the context of Indonesia and Thailand, their policy responses also point to a possible correlation between the statuses of their U.S. relationships vis-à-vis their hedging preferences. For Thailand, the downgrade of Thai-U.S. relations as a response to the military coup in 2014 has clearly pushed Prayuth's government toward aligning with China in order to gain political support, economic assistance, and defense and security cooperation. For Indonesia, this correlation is less clear-cut. A strengthening security partnership between Indonesia and the United States has clearly assisted Indonesia with pursuing an internal balancing policy through military modernization and a soft-balancing policy that seeks to maintain a balance of power in the region. However, as argued in the previous section, Jokowi's inclination to lean toward balancing in the hedging spectrum is also strongly influenced by domestic politics. Further research would be needed to validate the correlation between the "U.S. alliance" variable and the hedging responses of Indonesia and Thailand, especially if China's policy toward Southeast Asia shifts toward greater assertiveness in areas other than the SCS dispute.

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<sup>235</sup> Jae Ho Chung, "East Asia Responds to the Rise of China: Patterns and Variations," *Pacific Affairs* 82, no. 4 (2009/2010): 672, <http://www.jstor.org/stable/25608969>.

#### **D. POLICY IMPLICATIONS FOR THE U.S. REBALANCING STRATEGY**

The study of Indonesia's and Thailand's policy behaviors—in response to shifts in China's policy toward Southeast Asia—has highlighted two key insights into how the United States should similarly adjust its rebalancing strategy to counterbalance China's growing influence and to be a more effective strategic partner in the region.

First, as part of the U.S. rebalancing strategy, it is vital for the United States to accord greater focus on strengthening economic ties with Indonesia and Thailand rather than just focusing on the military and security aspects of the rebalancing. The economic factor has been a key strategic calculus in influencing Indonesia's and Thailand's hedging preferences; therefore, any engagement strategy needs to involve the economic dimension as well. Some analysts such as Euan Graham have argued that the lack of an economic foundation and the over-reliance “on military levers to maintain its influence” have led to perceptions that the United States is unwilling to sustain its Asian strategic pivot beyond the short term, thus undermining the credibility and commitment of the U.S. rebalancing strategy.<sup>236</sup> Furthermore, without the economic impetus in the U.S. rebalancing, Indonesia's and Thailand's increasing economic dependence on China may slowly pull these countries into China's sphere of influence, which would be detrimental to the U.S. rebalancing interests. If Indonesia and Thailand perceive greater expectations of gains through bandwagoning with China and these perceptions are reinforced with doubts of the U.S. long-term commitments in the region, it increases the likelihood that the ruling elites would prioritize their relations with China over the United States.

Although the Trans-Pacific Partnership (TPP) trade agreement has been Obama's key economic policy for addressing the economic deficiency in the U.S. rebalancing strategy, it is important to note that Indonesia and Thailand have not expressed interest in joining the TPP negotiations for domestic reasons. The United States would need to look at deepening business and economic partnerships through other avenues to address the economic shortfall. With the relative decline of market shares of Thailand's and Indonesia's overall trade, the United States has lost its position as the top trading partner

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<sup>236</sup> Euan Graham, “Southeast Asia in the U.S. Rebalance: Perceptions from a Divided Region,” *Contemporary Southeast Asia* 35, no. 3 (2013): 308–10, doi: 10.1355/cs35-3a.

of both countries to China. Indonesia and Thailand have already orientated their economic priorities toward China.

Even if the argument is made that the United States is a larger investment partner than China in many Southeast Asian states like Indonesia, the relative investment gaps are rapidly closing. With Beijing's proposed economic initiatives to increase investments in Southeast Asia, it would only be a matter of time before China catches up with the United States in terms of the size of investments. The United States would need to step up the economic pivot as part of its rebalancing strategy to deepen engagements with Southeast Asia in order to maintain its influence in the region. Otherwise, as Graham argues, the United States would have difficulty "enhancing its political leadership role in Southeast Asia" as "power factors are difficult to divorce from the economic policy realm."<sup>237</sup>

Second, the United States has to demonstrate its continued commitment as an ally and a reliable partner to reinforce mutual trust in U.S.-Thai and U.S.-Indonesian relations. With respect to Thailand, this demonstration of commitment is especially important given that the United States has downgraded its relations with Thailand over the military coup in 2014. Alienation of Prayuth's government has already strained relations and created deeper mistrust of the United States as a reliable ally. Strained Thai-U.S. relations have also paved the way for China to extend its influence over Thailand in the political, economic, and security realms. Although restoring full diplomatic relations and military assistance may only be possible when Thailand returns to being a democracy, it is important for the United States—in the interim—to reassure Thailand that it continues to value the U.S.-Thai relationship, and that it remains committed to Thailand as a security ally. This reassurance can be done in two ways. First, the United States has to ensure that military-to-military relations continue uninterrupted, especially the annual conduct of Cobra Gold exercises. This key joint exercise has become the symbol of the close U.S.-Thai alliance over the years, and the cancellation of the exercise would signal to Prayuth's government that the United States no longer values the U.S.-Thai

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<sup>237</sup> Graham, "Southeast Asia in the U.S. Rebalance," 309.

partnership. Second, the United States has to avoid further political posturing that would undermine the political legitimacy of the current Thai government. Prayuth has viewed Washington's harsh criticisms over his handling of Thailand's internal political and domestic affairs as unwarranted interferences to undermine his government. The United States has to recognize that Prayuth's government needs domestic legitimacy in order to stabilize the country and conduct the necessary domestic political reforms to move toward democracy. As Thai analyst Kavi Chongkittavorn argues, continued U.S. political posturing would only "dampen any future amelioration of Thai-U.S. relations" and push Prayuth's government to seek closer alignment with China in order to deliver the necessary political and economic reform.<sup>238</sup>

With respect to Indonesia, Jokowi's ambitious maritime vision has opened up a window of opportunity for the United States to consolidate the U.S.-Indonesia Comprehensive Partnership, strengthen mutual trust in the U.S.-Indonesia relations, and bolster the U.S. rebalancing strategy with the largest power in Southeast Asia. The United States can achieve these strategic objectives by assisting Indonesia's maritime vision in three ways. First, under the ambit of the Comprehensive Partnership agreement, the United States can play a more proactive role in Indonesia's military modernization by providing the military systems, training, and technical expertise to develop Indonesia's maritime defense capabilities. In addition, the United States should also explore deeper defense cooperation in dealing with both non-traditional security issues and conventional threat scenarios. This would entail increasing joint exercises to enhance interoperability and mutual trust between the United States and Indonesian military. Second, the United States could do more to assist with building up Indonesia's maritime infrastructure. With Indonesia seeking investments from friends in the region to develop its maritime economy, U.S. support in this area would pay long-term dividends in enhancing the U.S.-Indonesia relations. Third, an important part of building up trust in the U.S.-Indonesia partnership is for the U.S. to support Indonesia's interests in regional institutions and accommodate Indonesia's rise in the region. As Sukma argues, Indonesia's historical

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<sup>238</sup> Kavi Chongkittavorn, "US Political Posturing Kills Thai-US Relations," *Nation*, July 20, 2015, <http://www.nationmultimedia.com/opinion/US-political-posturing-kills-Thai-US-relations-30264774.html>.

experience with extra-regional great powers has created nationalistic sentiments “that major powers will always try to reap unfair advantages at the expense of Indonesia’s own interests.”<sup>239</sup> If both sides work together as equal partners, it is less likely that nationalism in Indonesia would become a divisive political issue with regards to Jakarta aligning more closely with the United States to maintain regional security and stability.

## **E. CONCLUSION**

Although Indonesia and Thailand have shown different policy responses to China’s shift in policy posture, they have nonetheless continued to adopt a hedging strategy to cope with the strategic uncertainties of China’s rise and the evolving regional order. As long as China is not deemed an imminent security threat to Indonesia or Thailand, both countries will continue to adopt a hedging approach that seeks to minimize China as a potential long-term security threat while maximizing the short-term political and economic opportunities that are associated with China’s rise. As long as systemic conditions allow, Indonesia and Thailand will continue to adopt a hedging strategy because it provides their ruling elites with greater policy maneuvering space and the flexibility to align with the perceived winning side in the event of increased great power rivalry in the region.

Under Jokowi’s government, Indonesia seems to have shifted closer to the balancing end of the hedging spectrum in its policy response toward China. However, given that he has only been in office for less than a year, it is still inconclusive as to whether Indonesia would lean toward the United States in its hedging preference. As Sukma has noted, “the sense of nationalism [in Indonesia] remains strong, and domestic politics have become more competitive in a more democratic context, taking sides or aligning itself too closely with any extra-regional great power carries a serious risk for the government, and becomes a divisive issue for domestic politics.”<sup>240</sup> Unless China openly challenges Indonesia’s sovereignty over the Natuna waters and becomes an imminent security threat, it is unlikely that Indonesia would side with the United States to

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<sup>239</sup> Sukma, “Indonesia and the Emerging Sino-US Rivalry,” 45–46.

<sup>240</sup> *Ibid.*, 46.

balance against China's rise. Instead, as a longer-term hedging strategy, Jokowi will likely abide by Indonesia's free and active foreign policy by pursuing close relationships with China and the United States in order to maximize gains from both sides. However, any challenges to Indonesia's sovereignty would likely provoke a nationalistic response to adopt a hedging preference leaning toward balancing in order to mitigate the potential risk of an escalating China threat.

As for Thailand, although the current military-led government has strategically aligned itself closer to China, concerns of Thailand abandoning its hedging strategy and moving deeper into China's sphere of influence may prove to be unfounded. Thailand's diplomacy has often been characterized as "bending with the wind," which seeks to manage great power relations in order to preserve Thailand's political autonomy and sovereignty.<sup>241</sup> In the first decade of the twenty-first century, Thailand had successfully managed its relations with the two major powers—China and the United States—and maximized economic and security benefits from both sides. In the past year, the military government has sought to diversify its hedging strategy by seeking strategic partnerships with other major powers in the region. Thailand's actions indicate that it will continue to actively hedge in order to preserve the country's political autonomy and avoid being embedded exclusively in China's sphere of influence. Nevertheless, it is also unlikely that Thailand would go back to the status quo of maintaining an equidistant relationship between the two great powers even after Thai-U.S. relations are restored in the future; instead, it is more likely that Thailand's hedging strategy toward China would continue to lean toward the bandwagoning end of the hedging spectrum so that it can maximize the economic and political benefits associated with China's peaceful rise.

In sum, Indonesia's and Thailand's current hedging preferences (under Jokowi's and Prayuth's governments) do not necessarily represent the long-term trends of their China foreign policy. The advantage of adopting a hedging strategy affords a country greater autonomy in policymaking and the ability to dynamically shift its hedging

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<sup>241</sup> See Kistenko's article on Thailand's foreign policy characterization. Arne Kislenko, "Bending with the Wind: The Continuity and Flexibility of Thai Foreign Policy," *International Journal* 57, no. 4 (2002): 537–61, <http://www.jstor.org/stable/40203691>.

preferences in accordance with how domestic factors affect the ruling elites' perception of the evolving regional order and China as a great power. Ultimately, how Indonesia and Thailand will respond to future changes in China's policy will depend on the ruling elite's perception of benefits from an improved relation with China vis-à-vis the perception of China as a security threat.

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